

INCOME TAX MANUAL

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THE GOVERNMENT OF INDIA

(Fourth Edition)



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PREFATORY NOTE TO THE FIRST EDITION.

The statutory provisions relating to income-tax are contained in Parts I and II of this Manual. Part I contains the Income-tax Act and the relevant portion of the Finance Act, and Part II contains the rules made under the Act.

Part III contains instructions and notes designed to assist income-tax authorities in the determination of questions which are bound to arise in assessments under the new Act. These instructions and notes have no statutory force but income-tax authorities should conduct assessments in accordance with them until they are cancelled or amended, unless in any particular instance the Income-tax Commissioner should desire to suspend action on any particular instruction pending a representation to the Board of Inland Revenue.

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In the marginal references " R " means a rule in Part II, " S " a section of the Act in Part I, and " P " a paragraph in Part III of the Manual.

SIMLA;

The 10th April 1922. }

G. G. SIM,

Member, Board of Inland Revenue.

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PART I.
INCOME-TAX ACT, 1922
(XI OF 1922).

ACT No. XI OF 1922, AS SUBSEQUENTLY AMENDED.

*An Act to consolidate and amend the law relating to
Income-tax and Super-tax.*

WHEREAS it is expedient to consolidate and amend the law relating to Income-tax and Super-tax; It is hereby enacted as follows:—

1. (1) This Act may be called the Indian Income-tax
Short title, extent and commencement. Act, 1922.

(2) It extends to the whole of British India, including P. 1. British Baluchistan and the Sonthal Parganas, and applies also, within the dominions of Princes and Chiefs in India in alliance with His Majesty, to British subjects in those dominions who are in the service of the Government of India or of a local authority established in the exercise of the powers of the Governor General in Council in that behalf, and to all other servants of His Majesty in those dominions.

(3) It shall come into force on the first day of April, 1922.

2. In this Act, unless there is anything repugnant in
Definitions. the subject or context,—

(1) “ agricultural income ” means—

P. 2.

(a) any rent or revenue derived from land which is used for agricultural purposes, and is either assessed to land-revenue in British India or subject to a local rate assessed and collected by officers of Government as such;

(b) any income derived from such land by—

(i) agriculture, or

(ii) the performance by a cultivator or receiver of rent-in-kind of any process ordinarily employed by a cultivator or receiver of rent-in-kind to render the produce raised or received by him fit to be taken to market, or

(iii) the sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him, in respect of which no process has

been performed other than a process of the nature described in sub-clause (ii);

- (c) any income derived from any building owned and occupied by the receiver of the rent or revenue of any such land, or occupied by the cultivator, or the receiver of rent-in-kind, of any land with respect to which, or the produce of which, any operation mentioned in sub-clauses (ii) and (iii) of clause (b) is carried on :

Provided that the building is on or in the immediate vicinity of the land, and is a building which the receiver of the rent or revenue or the cultivator or the receiver of the rent-in-kind by reason of his connection with the land, requires as a dwelling-house, or as a store-house, or other out-building;

(2) “ assessee ” means a person by whom Income-tax is payable;

(3) “ Assistant Commissioner ” means a person appointed to be an Assistant Commissioner of Income-tax under section 5;

(4) “ business ” includes any trade, commerce, or manufacture or any adventure or concern in the nature of trade, commerce or manufacture:

“(4A) “ The Central Board of Revenue ” means the Central Board of Revenue constituted under the Central Board of Revenue Act, 1924;

(5) “ Commissioner ” means a person appointed to be a Commissioner of Income-tax under section 5.

(6) “ company ” means a company as defined in the Indian Companies Act, 1913, or formed in pursuance of an Act of Parliament or of Royal Charter or Letters Patent, or of an Act of the Legislature of a British possession, and includes any foreign association carrying on business in British India whether incorporated or not, and whether its principal place of business is situate in British India or not, which the † *Central Board of Revenue* may, by general or special order, declare to be a company for the purposes of this Act; VII of 1913.

* This clause was inserted by the Central Board of Revenue Act, 1924 (IV of 1924).

† Amended by the Central Board of Revenue Act, 1924 (IV of 1924).

*(6A) "firm", "partner" and "partnership" have the same meanings respectively as in the Indian Contract Act, 1872; and

(7) "Income-tax Officer" means a person appointed to be an Income-tax Officer under section 5;

(8) "Magistrate" means a Presidency Magistrate or a Magistrate of the first class, or a Magistrate of the second class specially empowered by the Local Government to try offences against this Act;

(9) "person" includes a Hindu undivided family;

(10) "prescribed" means prescribed by rules made under this Act;

(11) "Previous year" means—

P. 6.

(a) the twelve months ending on the 31st day of March next preceding the year for which the assessment is to be made, or, if the accounts of the assessee have been made up to a date within the said twelve months in respect of a year ending on any date other than the said 31st day of March, then at the option of the assessee the year ending on the day to which his accounts have so been made up:

Provided that, if this option has once been exercised by the assessee, it shall not again be exercised so as to vary the meaning of the expression "previous year" as then applicable to such assessee except with the consent of the Income-tax Officer and upon such conditions as he may think fit; or

(b) in the case of any person, business or company, or class of person, business or company, such period as may be determined by the Central Board of Revenue or by such authority as the Board may authorise in this behalf.

(12) "principal officer," used with reference to a local authority or a company or any other public body or *any*† association, means—

P. 7, 8.

(a) the secretary, treasurer, manager or agent of the authority, company, body or association, or

* Inserted by the Income-tax (Amendment) Act, 1930 (XXI of 1930).

† Amended by the Income-tax (Amendment) Act, 1924 (XI of 1924).

(b) any person connected with the authority, company, body or association upon whom the Income-tax Officer has served a notice of his intention of treating him as the principal officer thereof;

P. 9. (13) " public servant " has the same meaning as in the XLV of 1860, Indian Penal Code;

P. 10. (14) * ' registered firm ' means a firm registered under
R. 2-6. the provisions of section 26A;

P. 11. (15) " total income " means total amount of income, profits and gains from all sources to which this Act applies computed in the manner laid down in section 16; and

P. 10. (16) " unregistered firm " means a firm which is not a registered firm.

CHAPTER I.

CHARGE OF INCOME-TAX.

P. 2, 6, 3. Where any Act of the Indian Legislature enacts that
11, 12, income-tax shall be charged for any
13, 14, Charge of income-tax. year at any rate or rates applicable
15. to the total income of an assessee, tax at the rate or those rates shall be charged for that year in accordance with, and subject to the provisions of, this Act in respect of all income, profits and gains of the previous year of every †individual, Hindu undivided family, company, firm and other association of individuals.‡

P. 13, 15, 4. (1) Save as hereinafter provided, this Act shall
16. Application of Act. apply to all income, profits or gains, as described or comprised in section 6, from whatever source derived, accruing or arising, or received in British India or deemed under the provisions of

* Amended by the Income-tax (Amendment) Act, 1930 (XXI of 1930).

† Amended by the Income-tax (Amendment) Act, 1924 (XI of 1924).

‡ NOTE.—The amendments made in Sections 3, 55 and 56 of the Act by the Indian Income-tax (Amendment) Act, 1924 (XI of 1924) shall have effect as if they had been made on the first day of April 1923, and income-tax and super-tax shall be deemed to have been chargeable for the year commencing on that date and to be chargeable for the year commencing on the first day of April, 1924, at the rate or rates applicable for those years to the total income of an individual, in respect of the income, profits and gains and of the total income, respectively, of every Association of individuals for which no rate of tax has been otherwise laid down by law.

this Act to accrue, or arise, or to be received in British India.

(2) Profits and gains of a business accruing or arising without British India to a person resident in British India* *shall, if they are received in or brought into British India, be deemed to have accrued or arisen in British India and to be profits and gains of the year in which they are so received or brought*, notwithstanding the fact that they did not so accrue or arise in that year, provided that they are so received or brought in within three years of the end of the year in which they accrued or arose. P. 15.

Explanation.—Profits or gains accruing or arising without British India shall not be deemed to be received or brought into British India within the meaning of this subsection by reason only of the fact that they are taken into account in the balance sheet prepared in British India.

(3) This Act shall not apply to the following classes of income:— P. 17, 22, 61.

- (i) Any income derived from property held under trust or other legal obligation wholly for religious or charitable purposes, and in the case of property so held in part only for such purposes, the income applied, or finally set apart for application, thereto. P. 19.
- (ii) Any income of a religious or charitable institution derived from voluntary contributions and applicable solely to religious or charitable purposes. P. 19.
- (iii) The income of local authorities.
- (iv) Interest on securities which are held by, or are the property of, any Provident Fund to which the Provident Funds Act, 1897, applies,† * P. 20, 21.
- (v) Any capital sum received in commutation of the whole or a portion of a pension, or in the nature of consolidated compensation for death or injuries, or in payment of any insurance policy, or as the accumulated P. 20.

* Amended by the Income-tax (Further Amendment) Act, 1923 (XXVII of 1923).

† Repealed by the Income-tax (Amendment) Act, 1924 (XI of 1924).

balance at the credit of a subscriber to any such Provident Fund.

- P. 22.** (vi) Any special allowance, benefit or perquisite specifically granted to meet expenses wholly and necessarily incurred in the performance of the duties of an office or employment of profit.
- P. 23.** (vii) Any receipts not being receipts arising from business or the exercise of a profession, vocation or occupation, which are of a casual and non-recurring nature, or are not by way of addition to the remuneration of an employé.
- P. 2.** (viii) Agricultural income.
- P. 20A.** *(ix) Any income received by trustees on behalf of a recognised provident fund as defined in clause (a) of section 58A.

In this sub-section "charitable purpose" includes relief of the poor, education, medical relief, and the advancement of any other object of general public utility.

CHAPTER II.

INCOME-TAX AUTHORITIES.

- P. 24.** 5. (1) There shall be the following classes of Income-tax authorities for the purposes of this Act, namely:—
- (a) the Central Board of Revenue,
 - (b) Commissioners of Income-tax,
 - (c) Assistant Commissioners of Income-tax, and
 - (d) Income-tax Officers.

† * * * * *

‡(3) There shall be a Commissioner of Income-tax for each province who shall be appointed by the Governor General in Council.

* Inserted by the Income-tax (Provident Funds Relief) Act, 1929 (XII of 1929).

† Repealed by the Central Board of Revenue Act, 1924 (IV of 1924).

‡ Amended by the Income-tax (Amendment) Act, 1928 (XVI of 1928).

(4) Assistant Commissioners of Income-tax and Income-tax Officers shall, subject to the control of the Governor General in Council, be appointed by the Commissioner of Income-tax by order in writing. They shall perform their functions in respect of such classes of persons and such classes of income and in respect of such areas as the Commissioner of Income-tax may direct. The Commissioner may, by general or special order in writing, direct that the powers conferred on the Income-tax Officer and the Assistant Commissioner by or under this Act shall, in respect of any specified case or class of cases, be exercised by the Assistant Commissioner and the Commissioner, respectively, and, for the purposes of any case in respect of which such order applies, references in this Act or in any rules made hereunder to the Income-tax Officer and the Assistant Commissioner shall be deemed to be references to the Assistant Commissioner and the Commissioner, respectively.

(5) The Central Board of Revenue may, by notification in the Gazette of India, appoint Commissioners of Income-tax, Assistant Commissioners of Income-tax and Income-tax Officers to perform such functions in respect of such classes of persons or such classes of income, and for such area, as may be specified in the notification, and thereupon the functions so specified shall cease, within the specified area, to be performed, in respect of the specified classes of persons or classes of income, by the authorities appointed under sub-sections (3) and (4).

(6) Assistant Commissioners of Income-tax and Income-tax Officers appointed under sub-section (4) shall, for the purposes of this Act, be subordinate to the Commissioner of Income-tax appointed under sub-section (3) for the province in which they perform their functions.

CHAPTER III.

TAXABLE INCOME.

6. Save as otherwise provided by this Act, the follow- **P. 13**

Heads of income
chargeable to income-
tax.

ing heads of income, profits and gains, shall be chargeable to income-tax in the manner hereinafter appearing, namely:—

(i) Salaries.

- (ii) Interest on securities.
- (iii) Property.
- (iv) Business.
- (v) Professional earnings.
- (vi) Other sources.

. 22, 23,
25.

7. (1) The tax shall be payable by an assessee under the head "Salaries" in respect of any salary or wages, any annuity, pension or gratuity, and any fees, commissions, perquisites or profits received by him in lieu of, or in addition to, any salary or wages, which are paid by or on behalf of Government, a local authority, a company, or any other public body or association, or by or on behalf of any private employer :

**Explanation.*—The right of a person to occupy free of rent as a place of residence any premises provided by his employer is a perquisite for the purposes of this subsection.

P. 11, 56.

Provided that the tax shall not be payable in respect of any sum deducted under the authority of Government from the salary of any individual for the purpose of securing to him a deferred annuity or of making provision for his wife or children, provided that the sum so deducted shall not exceed one-sixth of the salary.

P. 1, 15,
26.

(2) Any income which would be chargeable under this head if paid in British India shall be deemed to be so chargeable if paid to a British subject or any servant of His Majesty in any part of India by Government or by a local authority established by the Governor General in Council.

P. 16, 28.

8. The tax shall be payable by an assessee under the head "Interest on securities" in respect of the interest receivable by him on any security of the Government of India or of a Local Government, or on debentures or other securities for money issued by or on behalf of a local authority or a company :

P. 11.

Provided that no income-tax shall be payable on the interest receivable on any security of the Government of India issued or declared to be income-tax free :

* Inserted by the Income-tax (Amendment) Act, 1923 (XV of 1923).

Provided, further, that the income-tax payable on the interest receivable on any security of a Local Government issued income-tax free shall be payable by that Local Government.

9. (1) The tax shall be payable by an assessee under the head "Property" in respect of the *bonâ fide* annual value of property consisting of any buildings or lands appurtenant thereto of which he is the owner, other than such portions of such property as he may occupy for the purposes of his business, subject to the following allowances, namely:
- (i) where the property is in the occupation of the owner, or where it is let to a tenant and the owner has undertaken to bear the cost of repairs, a sum equal to one-sixth of such value; P. 29, 31, 32.
 - (ii) where the property is in the occupation of a tenant who has undertaken to bear the cost of repairs, the difference between such value and the rent paid by the tenant up to but not exceeding one sixth of such value; P. 32.
 - (iii) the amount of any annual premium paid to insure the property against risk of damage or destruction; P. 33.
 - (iv) where the property is subject to a mortgage or charge or to a ground rent, the amount of any interest on such mortgage or charge or of any such ground rent; P. 33-A
 - (v) any sums paid on account of land-revenue in respect of the property. P. 53.
 - (vi) in respect of collection charges, a sum not exceeding the prescribed maximum; P. 34.
R. 7.
 - (vii) in respect of vacancies, such sum as the Income-tax Officer may determine having regard to the circumstances of the case: P. 34A,
35.

Provided that the aggregate of the allowances made under this sub-section shall in no case exceed the annual value. P. 36.

(2) For the purposes of this section, the expression "annual value" shall be deemed to mean the sum for which the property might reasonably be expected to let from year to year: P. 30.

- P. 30.** Provided that, where the property is in the occupation of the owner for the purposes of his own residence, such sum shall, for the purposes of this section, be deemed not to exceed ten per cent. of the total income of the owner.
- P. 37, 39, 51.** **10.** (1) The tax shall be payable by an assessee under the head "Business" in respect of the profits or gains of any business carried on by him.
- P. 37, 40, 41.** (2) Such profits or gains shall be computed after making the following allowances, namely:—
- P. 42.** (i) any rent paid for the premises in which such business is carried on provided that when any substantial part of the premises is used as a dwelling-house by the assessee, the allowance under this clause shall be such sum as the Income-tax Officer may determine having regard to the proportional part so used;
- P. 43.** (ii) in respect of repairs, where the assessee is the tenant only of the premises, and has undertaken to bear the cost of such repairs, the amount paid on account thereof, provided that, if any substantial part of the premises is used by the assessee as a dwelling-house, a proportional part only of such amount shall be allowed;
- P. 44.** (iii) in respect of capital borrowed for the purposes of the business, where the payment of interest thereon is not in any way dependent on the earning of profits, the amount of the interest paid;
- Explanation.*—Recurring subscriptions paid periodically by shareholders or subscribers in such Mutual Benefit Societies as may be prescribed, shall be deemed to be capital borrowed within the meaning of this clause;
- P. 45.** (iv) in respect of insurance against risk of damage or destruction of buildings, machinery, plant, furniture, stocks or stores, used for the purposes of the business, the amount of any premium paid;

- (v) in respect of current repairs to such buildings, **P. 43.** machinery, plant, or furniture, the amount paid on account thereof;
- (vi) in respect of depreciation of such buildings, **P. 46.** machinery, plant, or furniture being the property of the assessee, a sum equivalent to such percentage on the original cost thereof to the assessee as may in any case or class of **R. 8-9.** cases be prescribed:

Provided that—

(a) the prescribed particulars have been duly furnished;

(b) where full effect cannot be given to any such allowance in any year owing to there being no profits or gains chargeable for that year, or owing to the profits or gains chargeable being less than the allowance, the allowance or part of the allowance to which effect has not been given, as the case may be, shall be added to the amount of the allowance for depreciation for the following year and deemed to be part of that allowance, or, if there is no such allowance for that year, be deemed to be the allowance for that year, and so on for succeeding years; and

(c) the aggregate of all such allowances made under this Act or any Act repealed hereby, or under the Indian Income-tax Act, 1886, shall, in no case, exceed the original cost to the assessee of the buildings, machinery, plant, or furniture, as the case may be;

(vii) in respect of any machinery or plant which, in **P. 47.** consequence of its having become obsolete, has been sold or discarded, the difference between the original cost to the assessee of the machinery or plant as reduced by the aggregate of the allowances made in respect of depreciation under clause (vi), or any Act repealed hereby, or the Indian Income-tax Act, 1886, and the amount for which the machinery or plant is actually sold, or its scrap value;

- P. 47A.** **(viiia)* in respect of animals which have been used for the purposes of the business otherwise than as stock in trade and have died or become permanently useless for such purposes, the difference between the original cost to the assessee of the animals and the amount, if any, realised in respect of the carcasses or animals;
- P. 48, 53.** *(viii)* any sums paid on account of land-revenue, local rates or municipal taxes in respect of such part of the premises as is used for the purposes of the business;
- P. 48A.** *†(viiiia)* any sum paid to an employee as bonus or commission for services rendered, where such sum would not have been payable to him as profits or dividend if it had not been paid as bonus or commission :
- Provided that the amount of the bonus or commission is of a reasonable amount with reference to—
- (a) the pay of the employee and the conditions of his service;
 - (b) the profits of the business for the year in question; and
 - (c) the general practice in similar businesses;
- P. 40, 49, 51.** *(ix)* any expenditure (not being in the nature of capital expenditure) incurred solely for the purpose of earning such profits or gains :

‡ Provided that nothing in clause *(viii)* or clause *(ix)* shall be deemed to authorise the allowance of any sum paid on account of any cess, rate or tax levied on the profits or gains of any business or assessed at a proportion of or otherwise on the basis of any such profits or gains.

- P. 37.** (3) In sub-section (2), the word “paid” means actually paid or incurred according to the method of accounting upon the basis of which the profits or gains are computed under this section.

- P. 37.** 11. (1) The tax shall be payable by an assessee under the head “Professional earnings” in Professional earnings. respect of the profits or gains of any profession or vocation followed by him.

* Inserted by the Income-tax (Amendment) Act, 1928 (III of 1928).

† Inserted by the Indian Income-tax (Third Amendment) Act, 1930 (XXIII of 1930).

‡ Inserted by the Income-tax (Amendment) Act, 1928 (III of 1928).

(2) Such profits or gains shall be computed after making allowance for any expenditure (not being in the nature of capital expenditure) incurred solely for the purposes of such profession or vocation, provided that no allowance shall be made on account of any personal expenses of the assessee. **P. 51A, 53.**

(3) Professional fees paid in any part of India to a person ordinarily resident in British India shall be deemed to be profits or gains chargeable under this head. **P. 15.**

12. (1) The tax shall be payable by an assessee under the head "Other sources" in respect of income, profits and gains of every kind and from every source to which this Act applies (if not included under any of the preceding heads). **P. 29.**

(2) Such income, profits and gains shall be computed after making allowance for any expenditure (not being in the nature of capital expenditure) incurred solely for the purpose of making or earning such income, profits or gains, provided that no allowance shall be made on account of any personal expenses of the assessee. **P. 52, 53.**

13. Income, profits and gains shall be computed, for the purposes of sections 10, 11 and 12, in accordance with the method of accounting regularly employed by the assessee: **P. 37, 38, 50.**

Provided that, if no method of accounting has been regularly employed, or if the method employed is such that, in the opinion of the Income-tax Officer, the income, profits and gains cannot properly be deduced therefrom, then the computation shall be made upon such basis and in such manner as the Income-tax Officer may determine.

14. (1) The tax shall not be payable by an assessee in respect of any sum which he receives as a member of a Hindu undivided family. **P. 11, 54.**

Exemptions of a general nature.

(2) The tax shall not be payable by an assessee in respect of—

(a) any sum which he receives by way of dividends as a shareholder in a company where the profits or gains of the company have been assessed to income-tax; or

(b) such an amount of the profits or gains of any firm which have been assessed to income-tax **P. 10, 55.**

as is proportionate to his share in the firm
**at the time of such assessment; or*

P. 55A.

†(c) any sum which he receives as his share of the profits or gains of an association of individuals, other than a Hindu undivided family, company or firm, where such profits or gains have been assessed to income-tax.

P. 11, 56.

15. (1) The tax shall not be payable by an assessee in respect of any sums paid by him to effect an insurance on his own life or on the life of his wife, or in respect of a contract for a deferred annuity on his own life or on the life of his wife, or as a contribution to any Provident Fund to which the Provident Funds Act, 1897, applies.

Exemption in the case of life insurances.

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IX of 1897

(2) Where the assessee is a Hindu undivided family, there shall be exempted under sub-section (1) any sums paid to effect an insurance on the life of any male member of the family or of the wife of any such member.

P. 11.

(3) The aggregate of any sums exempted under this section shall not, together with any sums exempted under the proviso to sub-section (1) of section 7, *†and any sums exempted under sub-section (1) of section 58F* exceed one-sixth of the total income of the assessee.

P. 20 A.

P. 11.

16. (1) In computing the total income of an assessee sums exempted under the proviso to sub-section (1) of section 7, the provisos to section 8, sub-section (2) of section 14 and section 15, shall be included.

Exemptions and exclusions in determining the total income.

P. 57, 63.

(2) For the purposes of sub-section (1), any sum mentioned in clause (a) of sub-section (2) of section 14 shall be increased by the amount of income-tax payable by the company in respect of the dividend received.

17-β

P. 11, 58.

17. Where owing to the fact that the total income of any assessee has reached or exceeded a certain limit he is liable to pay income-tax or to pay income-tax at a higher rate, the amount of income-tax payable by him shall, where

Reduction of tax when margin above a certain limit is small.

* Inserted by the Income-tax (Amendment) Act, 1928 (III of 1928).

† Inserted by the Income-tax (Amendment) Act, 1930 (XXII of 1930).

‡ Repealed by the Income-tax (Amendment) Act, 1924 (XI of 1924).

‡ Inserted by the Income-tax (Provident Funds Relief) Act, 1929 (XII of 1929).

necessary, be reduced so as not to exceed the aggregate of the following amounts, namely :—

- (a) the amount which would have been payable if his total income had been a sum less by one rupee than that limit, and
- (b) the amount by which his total income exceeds that sum.

CHAPTER IV.

DEDUCTIONS AND ASSESSMENT.

18. (1) Income-tax shall, unless otherwise prescribed **P. 59.**
 in the case of any security of the Gov-
 ernment of India, be leviable in advance
 by deduction at the time of payment in
 respect of income chargeable under the following heads :—

- (i) "Salaries"; and
- (ii) "Interest on securities." //

(2) Any person responsible for paying any income **P. 25, 56,**
 chargeable under the head "Salaries" shall, at the time **60.**
 of payment, deduct income-tax on the amount payable at
 the rate applicable to the estimated income of the assessee
 under this head :

Provided that such person may, at the time of making
 any deduction, increase or reduce the amount to be deduc-
 ted under this sub-section for the purpose of adjusting any
 excess or deficiency arising out of any previous deduction
 or failure to deduct.

*(2a) Notwithstanding anything hereinbefore con-
 tained, for the purpose of making the deduction under
 sub-section (2), there shall be included in the amount
 payable any income chargeable under the head 'Salaries'
 which is payable to the assessee out of India by or on behalf
 of Government, and the value in rupees of such income
 shall be calculated at the prescribed rate of exchange. **R. 11A.**
P. 59.

(3) The person responsible for paying any income **P. 23, 28,**
 chargeable under the head "Interest on securities" shall, **61.**
 at the time of payment, deduct income-tax on the amount
 of the interest payable at the maximum rate.

* Inserted by the Income-tax (Second Amendment) Act, 1925 (XVI of 1925).

P. 57. (4) All sums deducted in accordance with the provisions of this section shall, for the purpose of computing the income of an assessee, be deemed to be income received.

P. 59. (5) Any deduction made in accordance with the provisions of this section shall be treated as a payment of income-tax on behalf of the person from whose income the deduction was made, or of the owner of the security, as the case may be, and credit shall be given to him therefor in the assessment, if any, made for the following year under this Act :

Provided that, if such person or such owner obtains, in accordance with the provisions of this Act, a refund of any portion of the tax so deducted, no credit shall be given for the amount of such refund.

(6) All sums deducted in accordance with the provisions of this section shall be paid within the prescribed time by the person making the deduction to the credit of the Government of India, or as the Central Board of Revenue directs.

R. 10-12. **P. 59.** (7) If any such person does not deduct and pay the tax as required by this section, he shall, without prejudice to any other consequences which he may incur, be deemed to be personally in default in respect of the tax.

(8) The power to levy by deduction under this section shall be without prejudice to any other mode of recovery.

P. 61, 92. (9) Every person deducting income-tax in accordance with the provisions of sub-section (3) shall, at the time of payment of interest, furnish to the person to whom the interest is paid a certificate to the effect that income-tax has been deducted, and specifying the amount so deducted, the rate at which the tax has been deducted, and such other particulars as may be prescribed.

P. 59. 19. In the case of income chargeable under any other heads than those mentioned in sub-section (1) of section 18, and in any case where income-tax has not been deducted in accordance with the provisions of that section, the tax shall be payable by the assessee direct.

R. 42, 43. *19A. The principal officer of every company shall, on or before the 15th day of June in each year, furnish to the prescribed officer a return in the prescribed form and ver-
P. 68. Supply of information regarding dividends.

* Inserted by the Income-tax (Amendment) Act, 1926 (XXIV of 1926).

fied in the prescribed manner of the names and of the addresses, as entered in the register of shareholders maintained by the company, of the shareholders to whom a dividend or aggregate dividends exceeding such amount as may be prescribed in this behalf has or have been distributed during the preceding year and of the amount so distributed to each such shareholder.

20. The principal officer of every company shall, at the **P. 63, 92.**
 time of distribution of dividends, furnish to every person receiving a dividend a certificate to the effect that the company has paid or will pay income-tax on the profits which are being distributed, and specifying such other particulars **R. 14.**
 as may be prescribed.

21. The prescribed person in the case of every Govern- **R. 15.**
 ment office, and the principal officer or **P. 8, 64.**
 Annual return. the prescribed person in the case of every local authority, company or other public body or association, and every private employer shall prepare, and, within thirty days from the 31st day of March in each year, deliver or cause to be delivered to the Income-tax Officer in **R. 17.**
 the prescribed form, a return in writing showing—

(a) the name and, so far as it is known, the address, of every person who was receiving on the said 31st day of March, or has received during the year ending on that date, from the authority, company, body, association or private employer, as the case may be, any income **R. 16.**
 chargeable under the head "Salaries" of such amount as may be prescribed;

(b) the amount of the income so received by each such person, and the time or times at which the same was paid;

(c) the amount deducted in respect of income-tax from the income of each such person.

22. (1) The Principal officer of every company shall **P. 11, 65,**
 prepare, and, on or before the fifteenth **67, 68.**
 Return of income. day of June in each year, furnish to the Income-tax Officer a return, in the prescribed form and verified in the prescribed manner, of the total income of the company during the previous year : **R. 18.**

Provided that the Income-tax Officer may, in his discretion, extend the date for the delivery of the return in the case of any company or class of companies.

P. 11, 66, 67. (2) In the case of any person other than a company whose total income is, in the Income-tax Officer's opinion, of such an amount as to render such person liable to income-tax, the Income-tax Officer shall serve a notice upon him requiring him to furnish, within such period, not being less than thirty days as may be specified in the notice, a return in the prescribed form and verified in the prescribed manner setting forth (along with such other particulars as may be provided for in the notice) his total income during the previous year.

P. 67. (3) If any person has not furnished a return within the time allowed by or under sub-section (1) or sub-section (2), or having furnished a return under either of those sub-sections, discovers any omission or wrong statement therein, he may furnish a return or a revised return, as the case may be, at any time before the assessment is made, and any return so made shall be deemed to be a return made in due time under this section.

P. 69, 87. (4) The Income-tax Officer may serve on the principal officer of any company or on any person upon whom a notice has been served under sub-section (2) a notice requiring him, on a date to be therein specified, to produce, or cause to be produced, such accounts or documents as the Income-tax Officer may require:

Provided that the Income-tax Officer shall not require the production of any accounts relating to a period more than three years prior to the previous year.

P. 11, 76, 91. **23.** (1) If the Income-tax Officer is satisfied that a return made under section 22 is correct and complete, he shall assess the total income of the assessee, and shall determine the sum payable by him on the basis of such return.

P. 70, 71. (2) If the Income-tax Officer has reason to believe that a return made under section 22 is incorrect or incomplete he shall serve on the person who made the return a notice requiring him, on a date to be therein specified, either to attend at the Income-tax Officer's office or to produce, or to cause to be there produced, any evidence on which such person may rely in support of the return.

(3) On the day specified in the notice issued under sub-section (2), or as soon afterwards as may be, the Income-tax Officer, after hearing such evidence as such person may produce and such other evidence as the Income-tax Officer may require, on specified points, shall, by an order in writing, assess the total income of the assessee, and determine the sum payable by him on the basis of such assessment. **P. 11.**

(4) If the principal officer of any company or any other person fails to make a return under sub-section (1) or sub-section (2) of section 22, as the case may be, or fails to comply with all the terms of a notice issued under sub-section (4) of the same section or, having made a return, fails to comply with all the terms of a notice issued under sub-section (2) of this section, the Income-tax Officer shall make the assessment to the best of his judgment **and, in the case of a registered firm, may cancel its registration.* **P. 69, 70.**

**Provided that the registration of a firm shall not be cancelled until fourteen days have elapsed from the issue of a notice by the Income-tax Officer to the firm intimating his intention to cancel its registration.*

***23A. (1)** Where the Income-tax Officer is satisfied **P. 55A.** that any firm or other association of individuals carrying on any business, other than a Hindu undivided family or a company, is under the control of one member thereof, and that such firm or association has been formed or is being used for the purpose of evading or reducing the liability to tax of any member thereof, he may, with the previous approval of the Assistant Commissioner, pass an order that the sum payable as income-tax by the firm or association shall not be determined, and thereupon the share of each member in the profits and gains of the firm or association shall be included in his total income for the purpose of his assessment thereon.

Explanation.—A member of a firm or association who owns the whole or the major portion of the capital of the firm or association shall not by reason only of that fact be deemed to control the firm or association.

(2) Where the Income-tax Officer is satisfied that a company is under the control of not more than five of its

* Inserted by the Income-tax (Amendment) Act, 1930 (XXI of 1930).

members and that its profits and gains are allowed to accumulate beyond its reasonable needs, existing and contingent, having regard to the maintenance and development of its business, without being distributed to the members, or that a reasonable part of its profits and gains, having regard to the said needs, has not been distributed to its members in such manner as to render the amount distributed liable to be included in their total income, and that such accumulation or failure to distribute is for the purpose of preventing the imposition of tax upon any of the members in respect of their shares in the profits and gains so accumulated or not distributed, the Income-tax Officer may, with the previous approval of the Assistant Commissioner, pass an order that the sum payable as income-tax by the company shall not be determined, and thereupon the proportionate share of each member in the profits and gains of the company, whether such profits and gains have been distributed to the members or not, shall be included in the total income of such member for the purpose of his assessment thereon :

Provided that this sub-section shall not apply to any company which is a subsidiary company or in which the public are substantially interested.

Explanation.—For the purpose of this sub-section,—

- (a) a company shall be deemed to be a subsidiary company if, by reason of the beneficial ownership of shares therein, the control of the company is in the hands of a company not being a company to which the provisions of this sub-section apply or of two or more companies none of which is a company to which those provisions apply;
- (b) a company shall be deemed to be a company in which the public are substantially interested if shares of the company (not being shares entitled to a fixed rate of dividend, whether with or without a further right to participate in profits) carrying not less than twenty-five per cent. of the voting power have been allotted unconditionally to, or acquired unconditionally by, and are at the end of the previous year beneficially held by, the public (not including a company to which the provi-

sions of this sub-section apply) and if any such shares have in the course of such previous year been the subject of dealings in any stock exchange in British India or are in fact freely transferable by the holders to other members of the public;

- (c) unless the contrary is proved, a company shall be deemed to be under the control of any persons where the majority of the voting power or shares is in the hands of those persons or of relatives or nominees of those persons;
- (d) "nominee" means a person who may be required to exercise his voting power on the directions of, or holds shares directly or indirectly on behalf of, another person.

(3) The Assistant Commissioner shall not give his approval to any order proposed to be passed by the Income-tax Officer under this section until he has given the firm, association or company concerned an opportunity of being heard.

(4) (i) Where any member of a firm or association of **P. 91.** individuals makes default in the payment of tax on his share of profits and gains which has been included in his total income under the provisions of sub-section (1), such tax may be recovered from the firm or association, as the case may be.

(ii) Where the proportionate share of any member of a company in the undistributed profits and gains of the company has been included in his total income under the provisions of sub-section (2), the tax payable in respect thereof shall be recoverable from the company and may be recovered from such member, if there are not sufficient funds in the hands of the company to pay the tax, or if the winding up of the company has commenced.

(iii) Where tax is recoverable from a company, firm or other association under this sub-section, a notice of demand shall be served upon it in the prescribed form showing the sum so payable, and such company, firm or association shall be deemed to be the assessee in respect of such sum, for the purposes of Chapter VI.

(5) Where tax has been paid in respect of any undistributed profits and gains of a company under this section, and

such profits and gains are subsequently distributed in any year, the proportionate share therein of any member of the company shall be excluded in computing his total income of that year.

P. 36, 72. **24.** (1) Where any assessee sustains a loss of profits or gains in any year under any of the heads mentioned in section 6, he shall be entitled to have the amount of the loss set-off against his income, profits or gains under any other head in that year.

Set-off of loss in computing aggregate income.

(2) Where the assessee is a registered firm, and the loss sustained cannot wholly be set-off under sub-section (1), any member of such firm shall be entitled to have set-off against any income, profits or gains of the year in which the loss was sustained in respect of which the tax is payable by him such amount of the loss not already set-off as is proportionate to his share in the firm.

P. 14, 74. **25.** (1) Where any business, profession or vocation ^{on} which income-tax was not at any time charged under the provisions of the *Indian Income-tax Act, 1918*, is discontinued in any year, an assessment may be made in that year on the basis of the income, profits or gains of the period between the end of the previous year and the date of such discontinuance in addition to the assessment, if any, made on the basis of the income, profits or gains of the previous year.

Assessment in case of discontinued business.

P. 74. (2) Any person discontinuing any such business, profession or vocation shall give to the Income-tax Officer notice of such discontinuance within fifteen days thereof, and, where any person fails to give the notice required by this sub-section, the Income-tax Officer may direct that a sum shall be recovered from him by way of penalty not exceeding the amount of tax subsequently assessed on him in respect of any income, profits or gains of the business, profession or vocation up to the date of its discontinuance.

P. 14, 74. (3) Where any business, profession or vocation ^{2* *} on which tax was at any time charged under the provisions of the *Indian Income-tax Act, 1918*, is discontinued ^{VI of 1918.} no tax shall be payable in respect of the income, profits and

¹ Amended by the Income-tax (Amendment) Act, 1924 (XI of 1924).

² Repealed by the Income-tax (Amendment) Act, 1924 (XI of 1924).

gains of the period between the end of the previous year and the date of such discontinuance, and the assessee may further claim that the income, profits and gains of the previous year shall be deemed to have been the income, profits and gains of the said period. Where any such claim is made, an assessment shall be made on the basis of the income, profits and gains of the said period, and if an amount of tax has already been paid in respect of the income, profits and gains of the previous year exceeding the amount payable on the basis of such assessment, a refund shall be given of the difference.

(4) Where an assessment is to be made under sub-section (1) or sub-section (3), the Income-tax Officer may serve on the person whose income, profits and gains are to be assessed, or, in the case of a firm, on any person who was a member of such firm at the time of its discontinuance, or, in the case of a company, on the principal officer thereof, a notice containing all or any of the requirements which may be included in a notice under sub-section (2) of section 22, and the provisions of this Act shall, so far as may be, apply accordingly as if the notice were a notice issued under that sub-section.

***25A.** (1) Where, at the time of making an assessment **P. 54.**
 under section 23, it is claimed by or on
 behalf of any member of a Hindu family
 hitherto ~~assessed~~ as undivided that a
 partition has taken place among the members of such family,
 the Income-tax Officer shall make such inquiry thereinto as
 he may think fit, and if he is satisfied that a separation of
 the members of the family has taken place and that the joint
 family property has been partitioned among the various
 members or groups of members in definite portions† he shall
 record an order to that effect:

Provided that no such order shall be recorded until
 notices of the inquiry have been served on all the members
 of the family.

(2) Where such an order has been passed, the Income-
 tax Officer shall make an assessment of the total income
 received by or on behalf of the joint family as such, as if
 no separation or partition had taken place, and each

* Inserted by the Income-tax (Amendment) Act, 1928 (III of 1928).

† Inserted by the Income-tax, (Second Amendment) Act, 1930 (XXII of 1930).

member or group of members shall in addition to any income-tax for which he or it may be separately liable and notwithstanding anything contained in sub-section (1) of section 14, be liable for a share of the tax on the income so assessed according to the portion of the joint family property allotted to him or it;

and the Income-tax Officer shall make assessments accordingly on the various members and groups of members in accordance with the provisions of section 23:

Provided that all the separated members and groups of members shall be liable jointly and severally for the tax assessed on the total income received by or on behalf of the joint family as such.

*(3) Where such an order has not been passed in respect of a Hindu family hitherto assessed as undivided, such family shall be deemed, for the purposes of this Act, to continue to be a Hindu undivided family.

P. 75.

†26. (1) Where, at the time of making an assessment under section 23, it is found that a change in constitution of a firm. change has occurred in the constitution of a firm or that a firm has been newly constituted, the assessments on the firm and on the members thereof shall, subject to the provisions of this Act, be made as if the firm had been constituted throughout the previous year as it is constituted at the time of making the assessment, and as if each member had received a share of the profits of that year proportionate to his interest in the firm at the time of making the assessment.

P. 75A.

(2) Where, at the time of making an assessment under section 23, it is found that the person carrying on any business, profession or vocation has been succeeded in such capacity by another person, the assessment shall be made on such person succeeding, as if he had been carrying on the business, profession or vocation throughout the previous year, and as if he had received the whole of the profits for that year.

* Inserted by the Indian Income-tax (Second Amendment) Act, 1930 (XXII of 1930).

†Substituted for the original section by the Income-tax (Amendment) Act, 1928 (III of 1928).

***26A.** (1) Application may be made to the Income-tax **P. 10.**

Procedure in registration of firms.

Officer on behalf of any firm, constituted under an instrument of partnership specifying the individual shares of the partners, for registration for the purposes of this Act and of any other enactment for the time being in force relating to income-tax or super-tax.

(2) The application shall be made by such person or **P. 68.**
persons, and at such times and shall contain such particulars and shall be in such form, and be verified in such **R. 2-6.**
manner, as may be prescribed; and it shall be dealt with by the Income-tax Officer in such manner as may be prescribed.

27. Where an assessee or, in the case of a company, the **P. 67.**

Cancellation of assessment when cause is shown.

principal officer thereof, within one month from the service of a notice of demand issued as hereinafter provided, satisfies the Income-tax Officer that he was prevented by sufficient cause from making the return required by section 22, or that he did not receive the notice issued under sub-section (4) of section 22, or sub-section (2) of section 23, or that he had not a reasonable opportunity to comply, or was prevented by sufficient cause from complying, with the terms of the last-mentioned notices, the Income-tax Officer shall cancel the assessment and proceed to make a fresh assessment in accordance with the provisions of section 23.

† 23. (1) If the Income-tax Officer, the Assistant Com- **P. 67, 68.**

Penalty for concealment of income or improper distribution of profits.

missioner or the Commissioner, in the course of any proceedings under this Act, is satisfied that an assessee has concealed the particulars of his income or has deliberately furnished inaccurate particulars of such income, and has thereby returned it below its real amount, he may direct that the assessee shall, in addition to the income-tax payable by him, pay by way of penalty a sum not exceeding the amount of the income-tax which would have been avoided if the income so returned by the assessee had been accepted as the correct income.

(2) If the Income-tax Officer, the Assistant Commissioner or the Commissioner, in the course of any proceedings

* Inserted by the Indian Income-tax (Amendment) Act, 1930 (XXI of 1930).

† Substituted for the original section by the Indian Income-tax (Amendment) Act, 1930 (XXI of 1930).

under this Act, is satisfied that the profits of a registered firm have been distributed otherwise than in accordance with the shares of the partners as shown in the instrument of partnership registered under this Act governing such distribution, and that any partner has thereby returned his income below its real amount, he may direct that such partner shall, in addition to the income-tax payable by him, pay by way of penalty a sum not exceeding the amount of income-tax which has been avoided, or would have been avoided if the income returned by such partner had been accepted as his correct income; and no refund or other adjustment shall be claimable by any other partner by reason of such direction.

(3) No order shall be made under sub-section (1) or sub-section (2), unless the assessee or partner, as the case may be, has been heard, or has been given a reasonable opportunity of being heard.

(4) No prosecution for an offence against this Act shall be instituted in respect of the same facts on which a penalty has been imposed under this section.

(5) An Assistant Commissioner or a Commissioner, who has made an order under sub-section (1) or sub-section (2), shall forthwith send a copy of the same to the Income-tax Officer.

P. 77.

29. When the Income-tax Officer has determined a sum to be payable by an assessee under section 23, or when an order has been passed under sub-section (2) of section 25 or section 28 for the payment of a penalty, the Income-tax Officer shall serve on the assessee a notice of demand in the prescribed form specifying the sum so payable.

Notice of demand.

R. 20.

P. 38, 67,
69, 78,
106 A.

30. (1) Any assessee objecting to the amount or rate at which he is assessed under section 23 or section 27, or denying his liability to be assessed under this Act, or objecting to a refusal of an Income-tax Officer to make a fresh assessment under section 27, or to any order against him under sub-section (2) of section 25* or section 25-A or section 28, made by an Income-tax Officer, may appeal to the Assistant Commissioner against the assessment or against such refusal or order :

* Inserted by the Indian Income-tax (Amendment) Act, 1930 (XXII of 1930).

Provided that no appeal shall lie in respect of an assessment made under sub-section (4) of section 23, or under that sub-section read with section 27.

(2) The appeal shall ordinarily be presented within thirty days of receipt of the notice of demand relating to the assessment or penalty objected to, or of the date of the refusal to make a fresh assessment under section 27, as the case may be; but the Assistant Commissioner may admit an appeal after the expiration of the period if he is satisfied that the appellant had sufficient cause for not presenting it within that period.

P. 78.

(3) The appeal shall be in the prescribed form and shall be verified in the prescribed manner.

R. 21.

31. (1) The Assistant Commissioner shall fix a day and place for the hearing of the appeal, and may from time to time adjourn the hearing.

P. 79, 80.

Hearing of appeal.

(2) The Assistant Commissioner may, before disposing of any appeal, make such further inquiry as he thinks fit, or cause further inquiry to be made by the Income-tax Officer.

(3) In disposing of an appeal the Assistant Commissioner may, in the case of an order of assessment,—

(a) confirm, reduce, enhance or annul the assessment, or

(b) set aside the assessment and direct the Income-tax Officer to make a fresh assessment after making such further inquiry as the Income-tax Officer thinks fit or the Assistant Commissioner may direct, and the Income-tax Officer shall thereupon proceed to make such fresh assessment,

**or, in the case of an order refusing to make a fresh assessment under section 27,*

(c) *confirm such order, or cancel it and direct the Income-tax Officer to make a fresh assessment;*

* Inserted by the Indian Income-tax (Second Amendment) Act, 1930 (XXII of 1930).

or, in the cases of an order under sub-section (2) of section 25 or section 28,—

(d) confirm, cancel or vary such order :

Provided that the Assistant Commissioner shall not enhance an assessment unless the appellant has had a reasonable opportunity of showing cause against such enhancement.

**P. 80,
106A.**

32. (1) Any assessee objecting to an order passed by an Assistant Commissioner under section 28 or to an order enhancing his assessment under sub-section (3) of section 31, may appeal to the Commissioner within thirty days of the making of such order.

Appeals
orders of Assistant
Commissioner. against

**R. 24.
P. 68.**

(2) The appeal shall be in the prescribed form, and shall be verified in the prescribed manner.

(3) In disposing of the appeal the Commissioner may, after giving the appellant an opportunity of being heard, pass such orders thereon as he thinks fit.

P. 81.

33. (1) The Commissioner may of his own motion call for the record of any proceeding under this Act which has been taken by any authority subordinate to him or by himself when exercising the power of an Assistant Commissioner under sub-section (4) of section 5.

Power of review.

(2) On receipt of the record the Commissioner may make such inquiry or cause such inquiry to be made and, subject to the provisions of this Act, may pass such orders thereon as he thinks fit:

Provided that he shall not pass any order prejudicial to an assessee without hearing him or giving him a reasonable opportunity of being heard.

***33A.** (1) Any person aggrieved by an order of an Income-tax Officer under sub-section (1) or sub-section (2) of section 23A may, within thirty days of the date on which he was served with notice of such order, lodge an appeal in the office of the Commissioner.

Reference to Board
of Referees.

P. 68.

(2) The appeal shall be in the prescribed form and shall be verified in the prescribed manner.

* Inserted by the Indian Income-tax (Amendment) Act, 1930 (XXI of 1930).

(3) The Commissioner shall refer such appeal, with a statement of his own opinion thereon, to a Board of Referees for decision; and the Board of Referees shall decide the appeal after hearing the appellant and any person deputed by the Commissioner : **P. 81A.**

Provided that, before making a reference to a Board of Referees, the Commissioner may, and at the request of the appellant shall, in exercise of his powers of revision under section 33, decide the matters in dispute, and thereupon the assessee may withdraw his appeal or proceed with it.

(4) The decision of the Board of Referees shall be forwarded to the Commissioner who shall transmit it to the Income-tax Officer who passed the original order, and shall also send copies to each Income-tax Officer who has made any assessment consequent upon such order; and where a decision reverses or modifies the order of the Income-tax Officer, fresh assessments shall be made in accordance therewith, or such consequential adjustments as may be required shall be made in any assessment already made.

(5) The decision of a Board of Referees shall not be subject to appeal to any Income-tax authority, and shall not be revised by the Commissioner in exercise of his powers under section 33. **P. 81.**

(6) A Board of Referees shall consist of not less than three and not more than five persons, of whom not less than one-half shall be non-officials having business experience, and one shall be a judicial officer not inferior in rank to a Subordinate Judge or a Judge of a Small Cause Court who has held judicial office for a period of not less than ten years.

(7) Subject to the provisions of sub-section (6), the Central Board of Revenue may make rules regulating the formation, composition and procedure of Boards of Referees.

34. If for any reason income, profits or gains charge-
 Income escaping assessment. able to income-tax has escaped assessment in any year or has been assessed at too low a rate, the Income-tax Officer may, at any time within one year or the end of that year, serve on the person liable to pay tax on such income, profits or gains, or, in the case of a company, on the principal officer thereof, a notice containing all or any of the requirements which may be included in a notice under sub-section **P. 82.** ⁶⁸

(2) of section 22 and may proceed to assess or re assess such income, profits or gains, and the provisions of this Act shall, so far as may be, apply accordingly as if the notice were a notice issued under that sub-section :

Provided that the tax shall be charged at the rate at which it would have been charged had the income, profits or gains not escaped assessment or full assessment, as the case may be.

P. 83.

35. **(1) The Commissioner or Assistant Commissioner may, at any time within one year from the date of any order passed by him in appeal or, in the case of the Commissioner, in revision under section 33 and the Income-tax Officer may, at any time within one year from the date of any demand made upon an assessee, on his own motion rectify any mistake apparent from the record of the *appeal, revision or assessment, as the case may be, and shall within the like period rectify any such mistake which has been brought to his notice by *the assessee :*

Provided that no such rectification shall be made, having the effect of enhancing an assessment unless the **Commissioner, the Assistant Commissioner or the Income-tax Officer, as the case may be, has given notice to the assessee of his intention so to do and has allowed him a reasonable opportunity of being heard.*

(2) Where any such rectification has the effect of reducing the assessment, the Income-tax Officer shall make any refund which may be due to such assessee.

(3) Where any such rectification has the effect of enhancing the assessment, the Income-tax Officer shall serve on the assessee a notice of demand in the prescribed form specifying the sum payable, and such notice of demand shall be deemed to be issued under section 29, and the provisions of this Act shall apply accordingly.

P. 84.

36. In the determination of the amount of tax or of a refund payable under this Act, fractions Tax to be calculated to nearest anna. of an anna less than six pies shall be disregarded, and fractions of an anna equal to or exceeding six pies shall be regarded as one anna.

* Amended by Income-tax (Amendment) Act, 1928 (III of 1928).

37. The Income-tax Officer, Assistant Commissioner P. 70, 83.

Power to take evidence on oath, etc.

and Commissioner shall, for the purposes of this Chapter, have the same powers as are vested in a Court under the Code of Civil Procedure, 1908, when trying a suit in respect of the following matters, namely:—

V of 1908.

- (a) enforcing the attendance of any person and examining him on oath or affirmation;
- (b) compelling the production of documents; and
- (c) issuing commissions for the examination of witnesses;

and any proceeding before an Income-tax Officer, Assistant Commissioner or Commissioner under this Chapter shall be deemed to be a "judicial proceeding" within the meaning of sections 193 and 228 **and for the purposes of section 196 of the Indian Penal Code.*

XLV of 1860.

38. The Income-tax Officer or Assistant Commissioner

Power to call for information. may, for the purposes of this Act,—

- (1) require any firm, or Hindu undivided family to furnish him with a return of the members of the firm, or of the manager or adult male members of the family, as the case may be, and of their addresses;
- (2) require any person whom he has reason to believe to be a trustee, guardian, or agent, to furnish him with a return of the names of the persons for or of whom he is trustee, guardian, or agent, and of their addresses.

39. The Income-tax Officer or Assistant Commissioner, P. 70.

Power to inspect the register of members of any company.

or any person authorised in writing in this behalf by the Income-tax Officer or Assistant Commissioner, may inspect and, if necessary, take copies or cause copies to be taken, of any register of the members, debenture-holders or mortgagees of any company or of any entry in such register.

* Inserted by the Indian Income-tax (Second Amendment) Act, 1930 (XXII of 1930).

CHAPTER V.

LIABILITY IN SPECIAL CASES.

P. 85.

40. In the case of any guardian, trustee or agent of any person being a minor, lunatic or idiot or residing out of British India (all of which persons are hereinafter in this section included in the term "beneficiary") being in receipt on behalf of such beneficiary of any income, profits or gains chargeable under this Act, the tax shall be levied upon and recoverable from such guardian, trustee or agent, as the case may be, in like manner and to the same amount as it would be leviable upon and recoverable from any such beneficiary if of full age, sound mind, or resident in British India, and in direct receipt of such income, profits or gains, and all the provisions of this Act shall apply accordingly.

P. 85

41. In the case of income, profits or gains chargeable under this Act which are received by the Courts of Wards, etc. Courts of Wards, the Administrators-General, the Official Trustees or by any receiver or manager (including any person whatever his designation who in fact manages property on behalf of another) appointed by or under any order of a Court, the tax shall be levied upon and recoverable from such Court of Wards, Administrator-General, Official Trustee, receiver or manager in the like manner and to the same amounts as it would be leviable upon and recoverable from any person on whose behalf such income, profits or gains are received, and all the provisions of this Act shall apply accordingly.

P. 15, 53,
86, 87.

42. (1) In the case of any person residing out of British India, all profits or gains accruing or arising to such person, whether

R. 33.

directly or indirectly, through or from any business connection or property in British India, shall be deemed to be income accruing or arising within British India, and shall be chargeable to income-tax in the name of the agent of any such person, and such agent shall be deemed to be, for all the purposes of this Act, the assessee in respect of such income-tax:

P. 91.

Provided that any arrears of tax may be recovered also in accordance with the provisions of this Act from any assets of the non-resident person which are, or may at any time come, within British India.

(2) Where a person not resident in British India, and **P. 87.**
not being a British subject or a firm or company constituted
within His Majesty's dominions or a branch thereof, car-
ries on business with a person resident in British India,
and it appears to the Income-tax Officer or the Assistant
Commissioner, as the case may be, that owing to the close
connection between the resident and the non-resident
person and to the substantial control exercised by the non-
resident over the resident, the course of business between
those persons is so arranged, that the business done by the
resident in pursuance of his connection with the non-resi-
dent produces to the resident either no profits or less than
the ordinary profits which might be expected to arise in that
business, the profits derived therefrom or which may rea-
sonably be deemed to have been derived therefrom, shall be
chargeable to income-tax in the name of the resident person
who shall be deemed to be, for all the purposes of this Act,
the assessee in respect of such income-tax.

*(3) Where any profits or gains have accrued or arisen
to any person directly or indirectly from the sale in British
India by him or by any agency or branch on his behalf of
any merchandise exported to British India by him or any
agency or branch on his behalf from any place outside
British India, the profits or gains shall be deemed to have
accrued and arisen and to have been received in British
India, and no allowance shall be made under sub-section (2)
of section 10 in respect of any buying or other commission
whatsoever not actually paid, or of any other amounts not
actually spent, for the purpose of earning such profits or
gains.

43. Any person employed by or on behalf of a person **P. 87.**
residing out of British India, or having
any business connection with such per-
son, or through whom such person is in
the receipt of any income, profits or gains upon whom the
Income-tax Officer has caused a notice to be served of his
intention of treating him as the agent of the non-resident
person shall, for all the purposes of this Act, be deemed to
be such agent:

Provided that no person shall be deemed to be the agent
of a non-resident person, unless he has had an opportunity
of being heard by the Income-tax Officer as to his liability.

* Inserted by the Income-tax (Amendment) Act, 1928 (III of 1928).

P. 74.

44. Where any business, profession or vocation carried on by a firm has been discontinued, every person who was at the time of such discontinuance a member of such firm shall be jointly and severally liable for the amount of the tax payable in respect of the income, profits and gains of the firm.

Liability in case of a discontinued firm or partnership.

CHAPTER VA.*

SPECIAL PROVISIONS RELATING TO CERTAIN CLASSES OF SHIPPING.

P. 90.

44A. The provisions of this Chapter shall, notwithstanding anything contained in the other provisions of this Act, apply for the purpose of the levy and recovery of tax in the case of any person who resides out of British India and carries on business in British India in any year as the owner or charterer of a ship (such person hereinafter in this Chapter being referred to as the principal), unless the Income-tax Officer is satisfied that there is an agent of such principal from whom the tax will be recoverable in the following year under the other provisions of this Act.

44B. (1) Before the departure from any port in British India of any ship in respect of which the provisions of this Chapter apply, the master of the ship shall prepare and furnish to the Income-tax Officer a return of the full amount paid or payable to the principal, or to any person on his behalf, on account of the carriage of all passengers, live-stock or goods shipped at that port since the last arrival of the ship thereat.

(2) On receipt of the return, the Income-tax Officer shall assess the amount referred to in sub-section (1), and for this purpose may call for such accounts or documents as he may require, and one-twentieth of the amount so assessed shall be deemed to be the amount of the profits and gains accruing to the principal on account of the carriage of the passengers, live-stock and goods shipped at the port.

* Inserted by the Income-tax (Further Amendment) Act, 1923 (XXVII of 1923).

(3) When the profits and gains have been assessed as aforesaid, the Income-tax Officer shall determine the sum payable as tax thereon at the rate for the time being applicable to the total income of a company, and such sum shall be payable by the master of the ship, and a port-clearance shall not be granted to the ship until the Customs-collector, or other officer duly authorised to grant the same, is satisfied that the tax has been duly paid.

44C. Nothing in this Chapter shall be deemed to prevent a principal from claiming, in any year following that in which any payment has been made on his behalf under this Chapter, that an assessment be made of his total income in the previous year, and that the tax payable on the basis thereof be determined in accordance with the other provisions of this Act, and, if he so claims, any such payment as aforesaid shall be treated as a payment in advance of the tax and the difference between the sum so paid, and the amount of tax found payable by him shall be paid by him or refunded to him, as the case may be.

Adjustment.

CHAPTER VI.

RECOVERY OF TAX AND PENALTIES.

45. Any amount specified as payable in a notice of demand **under sub-section (4) of section 23A or under section 29 or an order under section 31 or section 32 or section 33*, shall be paid within the time, at the place and to the person mentioned in the notice or order, or if a time is not so mentioned, then on or before the first day of the second month following the date of the service of the notice or order, and any assessee failing so to pay shall be deemed to be in default, provided that, when an assessee has presented an appeal under section 30 **or under section 33-A*, the Income-tax Officer may in his discretion treat the assessee as not being in default as long as such appeal is undisposed of.

** Inserted by the Indian Income-tax (Amendment) Act, 1930 (XXI of 1930).*

- P. 91.** **46.** (1) When an assessee is in default in making a payment of income-tax, the Income-tax Officer may in his discretion direct that, in addition to the amount of the arrears, a sum not exceeding that amount shall be recovered from the assessee by way of penalty.
- Mode and time of recovery
- *(1A) For the purposes of sub-section (1) the Income-tax Officer may direct the recovery of any sum less than the amount of the arrears and may enhance the sum so directed to be recovered from time to time in the case of a continuing default, so however that the total sum so directed to be recovered shall not exceed the amount of the arrears payable.
- P. 91.** (2) The Income-tax Officer may forward to the Collector a certificate under his signature specifying the amount of arrears due from an assessee, and the Collector, on receipt of such certificate, shall proceed to recover from such assessee the amount specified therein as if it were an arrear of land-revenue.
- P. 91.** (3) In any area, with respect to which the Commissioner has directed that any arrears may be recovered by any process enforceable for the recovery of an arrear of any municipal tax or local rate imposed under any enactment for the time being in force in any part of the province, the Income-tax Officer may proceed to recover the amount due by such process.
- P. 91.** (4) The Commissioner may direct by what authority any powers or duties incident under any such enactment as aforesaid to the enforcement of any process for the recovery of a municipal tax or local rate shall be exercised or performed when that process is employed under sub-section, (3).
- P. 91.** (5) If any assessee is in receipt of any income chargeable under the head "Salaries," the Income-tax Officer may require any person paying the same to deduct from any payment subsequent to the date of such requisition any arrears due from such assessee, and such person shall comply with any such requisition and shall pay the sums so deducted to the credit of the Government of India, or as the Central Board of Revenue directs.

* Inserted by the Income-tax (Amendment) Act, 1928 (III of 1928).

(6) The Local Government may direct with respect to any specified area, that income-tax shall be recovered therein, with, and as an addition to, any municipal tax or local rate by the same person and in the same manner as the municipal tax or local rate is recovered.

(7) Save in accordance with the provisions of sub-section (1) of section 42, no proceedings for the recovery of any sum payable under this Act shall be commenced after the expiration of one year from the last day of the year in which any demand is made under this Act. **P. 91.**

47. Any sum imposed by way of penalty under the provisions of sub-section (2) of section 25, section 28 or sub-section (1) of section 46, shall be recoverable in the manner provided in this Chapter for the recovery of arrear of tax. **P. 91.**

Recovery of penalties.

CHAPTER VII.

REFUNDS.

48. (1) If a shareholder in a company who has received any dividend therefrom satisfies the Income-tax Officer **or other authority appointed by the Governor General in Council in this behalf* that the rate of income-tax applicable to the profits or gains of the company at the time of the declaration of such dividend is greater than the rate applicable to his total income of the year in which such dividend was declared, he shall, on production of the certificate received by him under the provisions of section 20, be entitled to a refund on the amount of such dividend (including the amount of the tax thereon) calculated at the difference between those rates. **P. 11, 63 92.**

Refunds.

(2) If a member of a registered firm satisfies the Income-tax Officer **or other authority appointed by the Governor General in Council in this behalf* that the rate of income-tax applicable to his total income of the previous year was less than the rate at which income-tax has been levied on the profits or gains of the firm of that year, he shall be entitled **P. 10, 11, 55, 72, 92.**

* Inserted by the Indian Income-tax (Second Amendment) Act, 1930 (XXII of 1930).

to a refund on his share of those profits or gains calculated at the difference between those rates.

P. 11, 59, 61, 92. (3) If the owner of a security from the interest on which, or any person from whose salary, income-tax has been deducted in accordance with the provisions of section 18, satisfies the Income-tax Officer **or other authority appointed by the Governor General in Council in this behalf* that the rate of income-tax applicable to his total income of the previous year was less than the rate at which income-tax has been charged in making such deduction in that year, he shall be entitled to a refund on the amount of interest or salary from which such deduction has been made calculated at the difference between those rates.

P. 92. †(4) For the purposes of this section, 'total income' includes, in the case of any person not resident in British India, all income, profits and gains wherever arising, accruing or received, which, if arising, accruing or received in British India, would be included in the computation of total income under section 16.

P. 92. †(5) Nothing in this section shall entitle to any refund any person not resident in British India who is neither a British subject as defined in section 27 of the British Nationality and Status of Aliens Act, 1914, nor a subject of a State in India. 4 & 5 Geo. c. 17.

P. 93, 93A, 94. 49. (1) If any person who has paid Indian income-tax for any year on any part of his income proves to the satisfaction of the Income-tax Officer that he has paid United Kingdom income-tax for that year in respect of the same part of his income, and that the rate at which he was entitled to, and has obtained, relief under the provisions of section 27 of the Finance Act, 1920, is less than the Indian rate of tax charged in respect of that part of his income, he shall be entitled to a refund of a sum calculated on that part of his income at a rate equal to the difference between the Indian rate of tax and the rate at which he was entitled to, and obtained, relief under that section :

Provided that the rate at which the refund is to be given shall not exceed one-half of the Indian rate of tax.

* Inserted by the Indian Income-tax (Second Amendment) Act, 1930 (XXII of 1930).

† Inserted by the Income-tax (Amendment) Act, 1928 (III of 1928).

(2) In sub-section (1)—

- (a) the expression “ Indian income-tax ” means income-tax and super-tax charged in accordance with the provisions of this Act;
- (b) the expression “ Indian rate of tax ” means the amount of the Indian income-tax divided by the income on which it was charged;
- (c) the expression “ United Kingdom income-tax ” means income-tax and super-tax chargeable in accordance with the provisions of the Income-tax Acts.

50. No claim to any refund of income-tax under this Chapter shall be allowed, unless it is

Limitation of claims
for refund.

made within one year from the last day of the year in which the tax was recovered **or before the last day of the financial year commencing after the expiry of the “ previous year ”, as defined in clause (11) of section 2, in which the income arose on which the tax was recovered, whichever period may expire later: Provided that a claim to refund under section 49 may be admitted after the period of limitation herein prescribed, when the applicant satisfies the Commissioner, or an Assistant Commissioner of Income-tax specially empowered in this behalf, by the Central Board of Revenue, that he had sufficient cause for not making the claim within such period.*

CHAPTER VIII.

OFFENCES AND PENALTIES.

51. If a person fails without reasonable cause or

Failure to make
payments or deliver
returns or statements
or allow inspection.

- (a) to deduct and pay any tax as required by section 18 or under sub-section (5) of section 46;
- (b) to furnish a certificate required by sub-section (g) of section 18 or by section 20 to be furnished;

* Inserted by the Indian Income-tax (Second Amendment) Act, 1930 (XXII of 1930).

P. 64, 65,
66, 67,
69.

(c) to furnish in due time any of the returns mentioned in *section 19A**, section 21, section 22, or section 38;

(d) to produce, or cause to be produced, on or before the date mentioned in any notice under sub-section (4) of section 22, such accounts and documents as are referred to in the notice;

(e) to grant inspection or allow copies to be taken in accordance with the provisions of section 39,

he shall, on conviction before a Magistrate, be punishable with fine which may extend to ten rupees for every day during which the default continues.

P. 68, 78.

52. If a person makes a statement in a verification mentioned in **section 19A*, or section 22, *for sub-section (2) of section 26A*, or sub-section (3) of section 30 or sub-section (2) of section 32 *for sub-section (2) of section 33A*, which is false, and which he either knows or believes to be false, or does not believe to be true, he shall be deemed to have committed the offence described in Section 177 of the Indian Penal Code.

False statement in declaration.

P. 68, 96.

53. (1) A person shall not be proceeded against for an offence under section 51 or section 52 except at the instance of the Assistant Commissioner.

XLV of 1860

Prosecution to be at instance of Assistant Commissioner.

(2) The Assistant Commissioner may stay any such proceeding or compound any such offence.

P. 9, 97.

54. (1) All particulars contained in any statement made, return furnished or accounts or documents produced under the provisions of this Act, or in any evidence given, or affidavit or deposition made, in the course of any proceedings under this Act other than proceedings under this Chapter, or in any record of any assessment proceeding, or any proceeding, relating to the recovery of a demand, prepared for the purposes of this Act, shall be treated as confidential, and, notwithstanding anything contained in the Indian Evidence Act, 1872, no Court shall, save as pro-

Disclosure of information by a public servant.

I of 1872.

* Inserted by the Indian Income-tax (Amendment) Act, 1926 (XXIV of 1926).

† Inserted by the Indian Income-tax (Amendment) Act, 1930 (XXI of 1930).

vided in this Act, be entitled to require any public servant to produce before it any such return, accounts, documents or record or any part of any such record, or to give evidence before it in respect thereof.

(2) If a public servant discloses any particulars contained in any such statement, return, accounts, documents, evidence, affidavit, deposition or record, he shall be punishable with imprisonment which may extend to six months, and shall also be liable to fine :

Provided that nothing in this section shall apply to the disclosure—

(a) of any such particulars for the purposes of a prosecution under * . . . the Indian Penal Code in respect of any such statement, return, accounts, documents, evidence, affidavit or deposition, or for the purposes of a prosecution under this Act, or

(b) of any such particulars to any person acting in the execution of this Act where it is necessary to disclose the same to him for the purposes of this Act, or

(c) of any such particulars occasioned by the lawful employment under this Act of any process for the service of any notice or the recovery of any demand, or

(d) of such facts to an authorised officer of the United Kingdom, as may be necessary to enable relief to be given under section 27 of the Finance Act, 1920, or a refund to be given under section 49 of this Act :

† Provided, further, that nothing in this section shall apply to the production by a public servant before a Court of any document, declaration or affidavit filed, or the record of any statement or deposition made in a proceeding under section 26A, or to the giving of evidence by a public servant in respect thereof.

* Amended by the Indian Income-tax (Second Amendment) Act, 1930 (XXII of 1930).

† Inserted by the Indian Income-tax (Amendment) Act, 1930 (XXI of 1930).

Provided, further, that no prosecution shall be instituted under this section except with the previous sanction of the Commissioner.

CHAPTER IX.

SUPER-TAX.

P. 2, 10, 11, 12, 98. 55. In addition to the income-tax charged for any year, there shall be charged, levied and paid for that year in respect of the total income of the previous year of any **individual, Hindu undivided family, company, unregistered firm or other association of individuals, not being a registered firm,†* an additional duty of income-tax (in this Act referred to as super-tax) at the rate or rates laid down for that year by Act of the Indian Legislature.

P. 55, 98. Provided that, where the profits and gains of an unregistered firm have been assessed to super-tax, super-tax shall not be payable by an individual having a share in the firm in respect of the amount of such profits and gains which is proportionate to his share.

P. 11, 98. 56. Subject to the provisions of this Chapter, the total income of any **individual, Hindu undivided family, company, unregistered firm or other association of individuals,* shall, for the purposes of super-tax be the total income as assessed for the purposes of income-tax, and where an assessment of total income has become final and conclusive for the purposes of income-tax for any year, the assessment shall also be final and conclusive for the purposes of super-tax for the same year.

1* * * * *

P. 99. 57. (1) In the case of any‡ person residing out of British India who is a member of a registered firm, and whose share of the profits from such firm is liable to super-tax, the remaining members of such firm who are resident in British India shall be jointly and severally liable to pay the super-

* Amended by the Income-tax (Amendment) Act, 1924 (XI of 1924).
 † NOTE.—See note to Section 3.
 * Inserted by Income-tax (Amendment) Act, 1925 (V of 1925) and repealed by Income-tax (Amendment) Act, 1928 (III of 1928).
 ‡ Amended by Income-tax (Amendment) Act, 1926 (XXIV of 1926).

tax due from the non-resident member in respect of such share.

*(2) Where the Income-tax Officer has reason to believe that any person, who is a shareholder in a company, is resident out of British India and that the total income of such person will in any year exceed the maximum amount which is not chargeable to super-tax under the law for the time being in force, he may, by order in writing require the principal officer of the company to deduct at the time of payment of any dividend from the company to the shareholder in that year super-tax at such rate as the Income-tax Officer may determine as being the rate applicable in respect of the income of the shareholder in that year.

*(3) If in any year the amount of any dividend or the aggregate amount of any dividends paid to any shareholder by a company (together with the amount of any income-tax payable by the company in respect thereof) exceeds the maximum amount of the total income of a person which is not chargeable to super-tax under the law for the time being in force, and the principal officer of the company has not reason to believe that the shareholder is resident in British India, and no order under sub-section (2) has been received in respect of such shareholder by the principal officer from the Income-tax Officer, the principal officer shall at the time of payment deduct super-tax on the amount of such excess at the rate which would be applicable under the law for the time being in force if the amount of such dividend or dividends (together with the amount of such income-tax as aforesaid) constituted the whole total income of the shareholder.

(4) Where any person pays any tax under the provisions of this section on account of *†another person* who is residing out of British India, credit shall be given therefor in determining the amount of the tax to be payable by any agent of such non-resident *†person* under the provisions of sections 42 and 43.

58. (1) All the provisions of this Act, except section 3, P. 92, 98.

Application of Act to super-tax. the proviso to sub-section (1) of section 7, the provisos to section 8, sub-section (2) of section 14, and sections 15, 17, 18,

* Amended by Income-tax (Amendment) Act, 1926 (XXIV of 1926).

† Inserted by the Income-tax (Amendment) Act, 1926 (XXIV of 1926).

19, 20, 21 and 48 shall apply, so far as may be, to the charge, assessment, collection and recovery of super-tax.

*Provided that sub-sections (4) to (9) of section 18 shall apply, so far as may be, to the assessment, collection and recovery of super-tax under sub-section (2) or sub-section (3) of section 57 *and under section 58H*.†

(2) Save as provided in section 57 *and section 58H*,† super-tax shall be payable by the assessee direct.

†CHAPTER IXA.

SPECIAL PROVISIONS RELATING TO CERTAIN CLASSES OF PROVIDENT FUNDS.

P. 20A.

58A. In this Chapter, unless there is anything repugnant in the subject or context,—
Definitions.

- (a) a “ recognised provident fund ” means a provident fund which has been and continues to be recognised by the Commissioner, in accordance with the provisions of this Chapter;
- (b) an “ employer ” means—
 - (i) a Hindu undivided family, company, firm or other association of individuals or persons, or
 - (ii) an individual engaged in a business, profession or vocation whereof the profits and gains are assessable to income-tax under section 10 or section 11, maintaining a provident fund for the benefit of his or its employees;
- (c) an “ employee ” means an employee participating in a provident fund, but does not include a personal or domestic servant;
- (d) a “ contribution ” means any sum credited by or on behalf of any employee out of his salary, or by an employer out of his own monies, to the individual account of an employee, but does not include any sum credited as interest;

* Inserted by the Income-tax (Amendment) Act, 1926 (XXIV of 1926).

† Inserted by the Indian Income-tax (Provident Funds Relief) Act, 1929 (XII of 1929).

- (e) the "balance to the credit" of an employee means the total amount to the credit of his individual account in a provident fund at any time;
- (f) the "annual accretion" to the balance to the credit of an employee means the increase to such balance in any year, arising from contributions and interest;
- (g) the "accumulated balance due" to an employee means the balance to his credit, or such portion thereof as may be claimable by him under the regulations of the fund, on the day he ceases to be an employee of the employer maintaining the fund; and
- (h) the "regulations of a fund" means the special body of regulations governing the constitution and administration of a particular provident fund.

58B. (1) The Commissioner of Income-tax may accord P. 20B.

The according and withdrawal of recognition. recognition to any provident fund which, in his opinion, satisfies the conditions prescribed in section 58C and the rules made thereunder, and may, at any time, withdraw such recognition if, in his opinion, the provident fund contravenes any of those conditions.

(2) The Governor General in Council may, at his discretion, direct the Commissioner of Income-tax to refuse to accord recognition to any provident fund, or may, at any time, withdraw recognition from any recognised provident fund.

(3) An order according recognition shall take effect on such date as the Commissioner may fix in accordance with any rules the Central Board of Revenue may make in this behalf, such date not being later than the last day of the financial year in which the order is made.

(4) An order withdrawing recognition shall take effect from the day on which it is made.

(5) An employer objecting to an order of the Commissioner refusing to recognise a provident fund may appeal, within sixty days of such order, to the Central Board of Revenue.

The appeal shall be in the form and shall be verified in the manner prescribed by the Central Board of Revenue.

P. 20C,
20D.

58C. (1) In order that a provident fund may receive and retain recognition, it shall satisfy the conditions set out below and any other conditions which the Governor General in Council may, by rule, prescribe—

Conditions to be
satisfied by a recog-
nised provident fund.

- (a) All employees shall be employed in India, or shall be employed by an employer whose principal place of business is in British India.
- (b) The contributions of an employee in any year shall be a definite proportion of his salary for that year, and shall be deducted by the employer from the employee's salary in that proportion, at each periodical payment of such salary in that year, and credited to the employee's individual account in the fund.
- (c) Subject to the provisions of section 58D, the contributions of an employer to the individual account of an employee in any year shall not exceed the amount of the contributions of the employee in that year, and shall be credited to the employee's individual account at intervals not exceeding one year.
- (d) The fund shall consist of contributions as above specified, of accumulations thereof, and of interest (simple and compound), credited in respect of such contributions and accumulations, and of securities purchased therewith, and of no other sums.
- (e) The fund shall be vested in two or more trustees* or in the Official Trustee, under a trust which shall not be revocable save with the consent of all the beneficiaries.
- (f) The employer shall not be entitled to recover any sum whatsoever from the fund, save in cases where the employee is dismissed for misconduct or voluntarily leaves his employment otherwise than on account of ill-health or other unavoidable cause before the expiration of the term of service specified in this behalf in the regulations of the fund.

* Inserted by the Income-tax (Amendment) Act, 1931 (IV of 1931).

In such cases the recoveries made by the employer shall be limited to the contributions made by him to the individual account of the employee, and to interest (simple and compound) credited in respect of such contributions and accumulations thereof, in accordance with the regulations of the fund.

(g) The accumulated balance due to an employee shall be payable on the day he ceases to be an employee of the employer maintaining the fund.

(h) Save as provided in clause (g), or in accordance with such conditions and restrictions as the Governor General in Council may, by rules, prescribe, no portion of the balance to the credit of an employee shall be payable to him.

(2) Where there is a repugnance between any regulation of a recognised provident fund and any provision of this Chapter or of the rules made thereunder, the regulation shall, to the extent of the repugnance, be of no effect.

The Commissioner may, at any time, require that such repugnance shall be removed from the regulations of the fund.

58D. Subject to any rules which the Governor General **P. 20C.**
in Council may make in this behalf, the Commissioner may, in respect of any particular fund, relax the provisions of condition (c) of sub-section (1) of section 58C—

Power to relax restrictions of employer's contributions in certain cases.

(a) so as to permit the payment of larger contributions by an employer to the individual accounts of employees whose salary does not exceed five hundred rupees per mensem; and

(b) so as to permit the crediting by employers to the individual accounts of employees of periodical bonuses or other contributions of a contingent nature, where the calculation and payment of such bonuses or other contributions is provided for on definite principles by the regulations of the fund.

58E. The annual accretion in any year to the balance at the credit of an employee participating in a recognised provident fund shall be deemed to have been received by him in that year and shall be included in his total income for that year, and, subject to the exemptions specified in section 58F, shall be liable to income-tax and super-tax :

Provided that, for the purpose of sub-section (3) of section 15, out of such annual accretion only the employee's own contributions shall be included in his total income.

**P. 11, 20,
20E,
20F.**

58F. (1) An employee shall not be liable to pay income-tax on contributions to his individual account in a recognised provident fund, in so far as the aggregate of such contributions in any year does not exceed one-sixth of his salary in that year.

(2) In the accounts of a recognised provident fund, the contributions exempted from income-tax under sub-section (1) and accumulations thereof shall be shown separately, and interest thereon shall be calculated and shown separately. Such interest shall be exempt from payment of income-tax, in so far as it is allowed at a rate not exceeding such rate as the Governor General in Council may, by notification in the Gazette of India, fix in this behalf.

P. 20.

58G. Where an employee participating in a recognised provident fund has rendered continuous service with his employer for a period of not less than five years, and the accumulated balance due to him becomes payable, such accumulated balance shall be exempt from payment of income-tax and super-tax, and shall be excluded from the computation of his total income :

Provided that the Commissioner of Income-tax may allow such exemption and exclusion where the employee has rendered continuous service with the employer for a period of less than five years, if, in his opinion, the service has been terminated by reason of the employee's ill-health, or by the contraction or discontinuance of the employer's business, or other cause beyond the control of the employee.

(2) Where exemption from payment of income-tax is not allowed under the provisions of sub-section (1), the Income-tax Officer shall calculate the total of the various

sums of income-tax from the payment of which the contributions and interest credited to the employee's individual account have been exempted under the provisions of sub-sections (1) and (2) of section 58F, and such total shall be payable by the employee, in addition to any other income-tax for which he may be liable for the year in which the accumulated balance due to him becomes payable.

58H. The trustees of a recognised provident fund, or other person authorised by the regulations of the fund to make payment of accumulated balances due to employees, shall, at the time an accumulated balance due to an employee is paid, deduct therefrom any income-tax payable under sub-section (2) of section 58-G and any income-tax and super-tax payable on an employee's total income as determined under sub-section (3) of section 58J, and sub-sections (4) to (9) of section 18 shall apply as if the sum to be deducted were income-tax payable under the head "Salaries".

58I. (1) The accounts of a recognised provident fund shall be maintained by the trustees of the fund and shall be in such form and for such periods, and shall contain such particulars as the Central Board of Revenue may prescribe. **P. 20G.**

Accounts of recognised provident funds.

(2) The accounts shall be open to inspection at all reasonable times by Income-tax authorities, and the trustees shall furnish to the Income-tax Officer such abstracts thereof as the Central Board of Revenue may prescribe.

58J. (1) Where recognition is accorded to a provident fund with existing balances, an account shall be made of the fund up to the day before the day on which the recognition takes effect, showing the balance to the credit of each employee on such day, and containing such further particulars as the Central Board of Revenue may prescribe. **P. 20G.**

Treatment of balances in newly recognised provident funds.

(2) The account shall also show in respect of the balance to the credit of each employee the amount thereof which is to be transferred to that employee's account in the recognised provident fund, and such amount (hereinafter called his transferred balance) shall be shown as the balance to his credit in the recognised provident fund on the date on which the recognition of the fund takes effect, and sub-sections (3) and (4) shall apply thereto.

Any portion of the balance to the credit of an employee in the existing fund which is not transferred to the recognised fund shall be excluded from the accounts of the recognised fund and shall be liable to income-tax and super-tax in accordance with the provisions of this Act other than this Chapter.

(3) Subject to such rules as the Central Board of Revenue may make in this behalf, the Income-tax Officer shall make a calculation of the aggregate of all sums comprised in a transferred balance which would have been liable to income-tax if this Chapter had been in force from the date of the institution of the fund, without regard to any tax which may have been paid on any such sum, and such aggregate (if any) shall be deemed to be income received by the employee in the year in which the recognition of the fund takes effect, and shall be included in the employee's total income for that year; and, for the purposes of assessment, the remainder of the transferred balance shall be disregarded, but no other exemption or relief, by way of refund or otherwise, shall be granted in respect of any sum comprised in such transferred balance:

Provided that, in cases of serious accounting difficulty, the Commissioner shall have power subject to the said rules, to make a summary calculation of such aggregate.

(4) Notwithstanding anything contained in condition (h) of sub-section (1) of section 58C, an employee, in order to enable him to pay the amount of tax assessed on his total income as determined under sub-section (3), shall be entitled to withdraw from the balance to his credit in the recognised provident fund a sum not exceeding the difference between such amount and the amount to which he would have been assessed if the transferred balance had not been included in his total income.

(5) Nothing in this section shall affect the rights of the persons administering an unrecognised provident fund or dealing with it, or with the balance to the credit of any individual employee, before recognition is accorded, in any manner which may be lawful.

P. 20H.

58K. (1) Where an employer who maintains a provident fund (whether recognised or not) for the benefit of his employees and has not transferred the fund or any portion of it, transfers such fund or portion to trustees in trust

Treatment of fund transferred by employer to trustee.

for the employees participating in the fund, the amount so transferred shall be deemed to be of the nature of capital expenditure.

(2) When an employee participating in such fund is paid the accumulated balance due to him therefrom, any portion of such balance as represents his share in the amount so transferred to the trustee (without addition of interest, and exclusive of the employee's contributions and interest thereon) shall be deemed to be an expenditure by the employer within the meaning of clause (ix) of sub-section (2) of section 10, incurred in the year in which the accumulated balance due to the employee is paid.

58L. (1) All rules made under this Chapter shall be subject to the provisions of sub-sections (4) and (5) of section 59.

Provisions relating to rules.

(2) In addition to any power conferred by this Chapter, the Governor General in Council may make rules—

- (a) prescribing the statements and other information to be submitted with an application for recognition;
- (b) limiting the contributions to a recognised provident fund by employees of a company who are shareholders in the company;
- (c) providing for the assessment by way of penalty of any consideration received by an employee for an assignment of, or creation of a charge upon, his beneficial interest in a recognised provident fund;
- (d) determining the extent to and the manner in which exemption from payment of income-tax and super-tax may be granted in respect of contributions and interest credited to the individual accounts of employees in a provident fund from which recognition has been withdrawn; and
- (e) generally, to carry out the purposes of this Chapter and to secure such further control over the recognition of provident funds and the administration of recognised provident funds as he may deem requisite.

58M. This Chapter shall not apply to any provident fund to which the Provident Funds Act, 1925, applies.

Application of this Chapter.

XIX of 1925.

CHAPTER X

MISCELLANEOUS.

P. 101.

59. (1) The Central Board of Revenue may, subject to the control of the Governor General in Council, make rules for carrying out the purposes of this Act and for the ascertainment and determination of any class of income. Such rules may be made for the whole of British India or for such part thereof as may be specified.

(2) Without prejudice to the generality of the foregoing power, such rules may—

(a) prescribe the manner in which, and the procedure by which, the income, profits and gains shall be arrived at in the case of—

R. 23-24.

P. 107.

R. 25-32,

35.

R. 33-35.

R. 36-40.

(i) incomes derived in part from agriculture and in part from business;

(ii) insurance companies;

(iii) persons residing out of British India;

(b) prescribe the procedure to be followed on applications for refunds;

(c) provide for such arrangements with His Majesty's Government as may be necessary to enable the appropriate relief to be granted under section 27 of the Finance Act, 1920, or under section 49 of this Act;

(d) prescribe the year which, for the purpose of relief under section 49, is to be taken as corresponding to the year of assessment for the purposes of section 27 of the Finance Act, 1920; and

10 & 11 Geo. V. ch. 18.

10 & 11 Geo. V. ch. 18.

(e) provide for any matter which by this Act is to be prescribed.

*(3) In cases coming under clause (a) of sub-section (2), where the income, profits and gains liable to tax cannot be definitely ascertained, or can be ascertained only with an amount of trouble and expense to the assessee which, in the opinion of the Central Board of Revenue, is unreasonable, the rules made under that sub-section may—

(a) prescribe methods by which an estimate of such income, profits and gains may be made, and

(b) in cases coming under sub-clause (i) of clause (a) of sub-section (2), prescribe the proportion of the income which shall be deemed to be income, profits and gains liable to tax,

and an assessment based on such estimate or proportion shall be deemed to be duly made in accordance with the provisions of this Act.

(4) The power to make rules conferred by this section P. 101. shall, except on the first occasion of the exercise thereof, be subject to the condition of previous publication.

(5) Rules made under this section shall be published in the Gazette of India, and shall thereupon have effect as if enacted in this Act.

60. (1) The Governor-General in Council may, by noti- P. 17,
fication in the Gazette of India, make an 17A,
exemption, reduction in rate or other 34A.
modification, in respect of income-tax in
favour of any class of income, or in regard to the whole or
any part of the income of any class of persons.

†(2) Where, by reason of any portion of an assessee's salary being paid in arrears or in advance, his income is assessed at a rate higher than that at which it would otherwise have been assessed; the Governor General in Council may grant such relief as he may think fit.

61. Any assessee, who is entitled or required to attend P. 71.
before any Income-tax authority in con-
Appearance by authorised representa- nection with any proceedings, under this
tive. Act, may attend either in person or by
any person authorised by him in writing in this behalf.

62. A receipt shall be given for any money paid or re-
Receipts to be given. covered under this Act.

* Inserted by the Income-tax (Amendment) Act, 1927 (XXVIII of 1927).

† Inserted by the Indian Income-tax (Amendment) Act, 1930 (XXII of 1930).

P. 104.

63. (1) A notice or requisition under this Act may be served on the person therein-named either by post or, as if it were a summons issued by a Court, under the Code of Civil Procedure, 1908. V₂ of 1908.

(2) Any such notice or requisition may, in the case of a firm or a Hindu undivided family, be addressed to any member of the firm or to the manager, or any adult male member of the family **and, in the case of any other association of individuals, be addressed to the principal officer thereof.*

P. 105.

64. (1) Where an assessee carries on business at any place, he shall be assessed by the Income-tax Officer of the area in which that place is situate or, where the business is carried on in more places than one, by the Income-tax Officer of the area in which his principal place of business is situate.

(2) In all other cases an assessee shall be assessed by the Income-tax Officer of the area in which he resides.

(3) Where any question arises under this section as to the place of assessment, such question shall be determined by the Commissioner, or, where the question is between places in more provinces than one, by the Commissioners concerned, or, if they are not in agreement, by the Central Board of Revenue :

Provided that, before any such question is determined the assessee shall have had an opportunity of representing his views.

P. 24, 64.

(4) Notwithstanding anything contained in this section, every Income-tax Officer shall have all the powers conferred by or under this Act on an Income-tax Officer in respect of any income, profits or gains accruing, or arising or received within the area for which he is appointed.

65. Every person deducting, retaining or paying any tax in pursuance of this Act in respect of income belonging to another person is hereby indemnified for the deduction, retention or payment thereof.

P. 106.

66. (1) If, in the course of any assessment under this Act or any proceeding in connection therewith other than a proceeding under Chapter VIII, a question of law arises,

Statement of case by
Commissioner to High
Court.

* Amended by the Income-tax (Amendment) Act, 1924 (XI of 1924).

the Commissioner may, either on his own motion or on reference from any Income-tax authority subordinate to him, draw up a statement of the case and refer it with his own opinion thereon to the High Court.

(2) **Within sixty days of the date on which he is served with notice of an order under section 31 or section 32 † or of a decision by a Board of Referees under section 33A*, the assessee in respect of whom the order † or decision was passed may, by application accompanied by a fee of one hundred rupees or such lesser sum as may be prescribed, require the Commissioner to refer to the High Court any question of law arising out of such order † or decision, and the Commissioner shall, within * *sixty days* of the receipt of such application, draw up a statement of the case and refer it with his own opinion thereon to the High Court :

Provided that if in exercise of his power of *revision*‡ under section 33, the Commissioner decides the question, the assessee may withdraw his application, and if he does so, the fee paid shall be refunded.

(3) If on any application being made under sub-section (2), the Commissioner refuses to state the case on the ground that no question of law arises, the assessee may apply § *within six months from the date on which he is served with notice of the refusal* to the High Court, and the High Court if it is not satisfied of the correctness of the Commissioner's decision, may require the Commissioner to state the case and to refer it, and, on receipt of any such requisition, the Commissioner shall state and refer the case accordingly.

(4) If the High Court is not satisfied that the statements in a case referred under this section are sufficient to enable it to determine the question raised thereby, the Court may refer the case back to the Commissioner by whom it was stated to make such additions thereto or alterations therein as the Court may direct in that behalf.

(5) The High Court upon the hearing of any such case shall decide the questions of law raised thereby, and shall deliver its judgment thereon containing the grounds on

* Amended by the Indian Income-tax (Second Amendment) Act, 1930 (XXII of 1930).

† Inserted by the Indian Income-tax (Amendment) Act, 1930 (XXI of 1930).

‡ Amended by the Income-tax (Amendment) Act, 1928 (III of 1928).

§ Amended by the Income-tax (Amendment) Act, 1924 (XI of 1924).

which such decision is founded, and shall send to the Commissioner by whom the case was stated a copy of such judgment under the seal of the Court and the signature of the Registrar, and the Commissioner shall dispose of the case accordingly, or, if the case arose on a reference from any Income-tax authority subordinate to him, shall forward a copy of such judgment to such authority who shall dispose of the case conformably to such judgment.

(6) Where a reference is made to the High Court on the application of an assessee, the costs shall be in the discretion of the Court.

P. 91.

(7) Notwithstanding that a reference has been made under this section to the High Court, income-tax shall be payable in accordance with the assessment made in the case :

Provided that, if the amount of an assessment is reduced as a result of such reference, the amount overpaid shall be refunded with such interest as the Commissioner may allow.

*(8) For the purposes of this section " the High Court " means—

(a) in relation to the North-West Frontier Province and British Baluchistan, the High Court of Judicature at Lahore;

(b) in relation to the province of Ajmer-Merwara, the High Court of Judicature at Allahabad; and

(c) in relation to the province of Coorg, the High Court of Judicature at Madras.

P. 106,
106A.

*66A. (1) When any case has been referred to the High Court under section 66, it shall be heard by a Bench of not less than two Judges of the High Court, and in respect of such case the provisions of section 98 of the Code of Civil Procedure, 1908, shall V of 1908. so far as may be, apply notwithstanding anything contained in the Letters Patent of any High Court established by Letters Patent or in any other law for the time being in force.

(2) An appeal shall lie to His Majesty in Council from any judgment of the High Court delivered on a reference

* Inserted by the Income-tax (Amendment) Act, 1926 (XXIV of 1926).

made under section 66 in any case which the High Court certifies to be a fit one for appeal to His Majesty in Council.

v of 1908. (3) The provisions of the Code of Civil Procedure, 1908, relating to appeals to His Majesty in Council shall, so far as may be, apply in the case of appeals under this section in like manner as they apply in the case of appeals from decrees of a High Court :

Provided that nothing in this sub-section shall be deemed to affect the provisions of sub-section (5) or sub-section (7) of section 66 :

Provided, further, that the High Court may, on petition made for the execution of the order of His Majesty in Council in respect of any costs awarded thereby, transmit the order for execution to any Court subordinate to the High Court.

(4) Where the judgment of the High Court is varied or reversed in appeal under this section, effect shall be given to the order of His Majesty in Council in the manner provided in sub-sections (5) and (7) of section 66 in the case of a judgment of the High Court.

(5) Nothing in this section shall be deemed :—

(a) to bar the full and unqualified exercise of His Majesty's pleasure in receiving or rejecting appeals to His Majesty in Council, or otherwise howsoever, or

(b) to interfere with any rules made by the Judicial Committee of the Privy Council, and for the time being in force, for the presentation of appeals to His Majesty in Council, or their conduct before the said Judicial Committee.

67. No suit shall be brought in any Civil Court to set aside or modify any assessment made under this Act, and no prosecution, suit or other proceeding shall lie against any Government officer for anything in good faith done or intended to be done under this Act.

*67A. In computing the period of limitation prescribed for an appeal under this Act or for an application under section 66, the day on which the order complained of was made,

Computation of periods of limitation.

* Inserted by the Indian Income-tax (Second Amendment) Act, 1930 (XXII of 1930).

and the time requisite for obtaining a copy of such order, shall be excluded.

*68.

Extract from the Indian Finance Act, 1931.

* * * * *

1. (1) This Act may be called the Indian Finance Act, 1931.

* * * * *

7. (1) Income-tax for the year beginning on the first day of April 1931, shall be charged at the rates specified in Part I of the fourth Schedule.

(2) The rates of super-tax for the year beginning on the first day of April 1931, shall, for the purposes of section 55 of the Indian Income-tax Act, 1922, be those specified in Part II of the fourth Schedule

(3) For the purposes of the fourth Schedule "total income" means total income as determined, for the purposes of income-tax or super-tax as the case may be, in accordance with the provisions of the Indian Income-tax Act, 1922.

* * * * *

SCHEDULE IV.

[See section 7.]

PART I.

Rates of Income-tax.

A. In the case of every individual, Hindu undivided family, unregistered firm and other association of individuals not being a registered firm or a company—

	Rate.
(1) When the total income is less than Rs. 2,000.	Nil.
(2) When the total income is Rs. 2,000 or upwards, but is less than Rs. 5,000.	Six pies in the rupee.
(3) When the total income is Rs. 5,000 or upwards, but is less than Rs. 10,000.	Nine pies in the rupee.
(4) When the total income is Rs. 10,000 or upwards, but is less than Rs. 15,000.	One anna in the rupee.
(5) When the total income is Rs. 15,000 or upwards, but is less than Rs. 20,000.	One anna and four pies in the rupee.
(6) When the total income is Rs. 20,000 or upwards, but is less than Rs. 30,000.	One anna and seven pies in the rupee.

	Rate.
(7) When the total income is Rs. 30,000 or upwards, but is less than Rs. 40,000.	One anna and eleven pies in the rupee.
(8) When the total income is Rs. 40,000 or upwards, but is less than Rs. 1,00,000.	Two annas and one pie in the rupee.
(9) When the total income is Rs. 1,00,000 or upwards.	Two annas and two pies in the rupee.
B. In the case of every company and registered firm, whatever its total income.	Two annas and two pies in the rupee.

PART II.

Rates of Super-tax.

In respect of the excess over thirty thousand rupees of total income—

(1) in the case of every company—

Rate.

(a) in respect of the first twenty thousand rupees of such excess.

Nil.

(b) for every rupee of the remainder of such excess.

One anna in the rupee.

(2) (a) in the case of every Hindu undivided family—

(i) in respect of the first forty-five thousand rupees of such excess.

Nil.

(ii) for every rupee of the next twenty-five thousand rupees of such excess.

One anna and three pies in the rupee.

(b) in the case of every individual, unregistered firm and other association of individuals not being a registered firm or a company—

(i) for every rupee of the first twenty thousand rupees of such excess.

Nine pies in the rupee.

(ii) for every rupee of the next fifty thousand rupees of such excess.

One anna and three pies in the rupee.

(c) in the case of every individual, Hindu undivided family, unregistered firm and other association of individuals not being a registered firm or a company—

(i) for every rupee of the next fifty thousand rupees of such excess.

One anna and nine pies in the rupee.

(ii) for every rupee of the next fifty thousand rupees of such excess.

Two annas and three pies in the rupee.

(iii) for every rupee of the next fifty thousand rupees of such excess.

Two annas and nine pies in the rupee.

(iv) for every rupee of the next fifty thousand rupees of such excess.

Three annas and three pies in the rupee.

	Rate.
(v) for every rupee of the next fifty thousand rupees of such excess.	Three annas and nine pies in the rupee.
(vi) for every rupee of the next fifty thousand rupees of such excess.	Four annas and three pies in the rupee.
(vii) for every rupee of the next fifty thousand rupees of such excess.	Four annas and nine pies in the rupee.
(viii) for every rupee of the next fifty thousand rupees of such excess.	Five annas and three pies in the rupee.
(ix) for every rupee of the next fifty thousand rupees of such excess.	Five annas and nine pies in the rupee.
(x) for every rupee of the remainder of such excess.	Six annas and three pies in the rupee.

ACT III OF 1926.

AN ACT TO DETERMINE THE LIABILITY OF CERTAIN GOVERNMENTS TO TAXATION IN BRITISH INDIA IN RESPECT OF TRADING OPERATIONS.

Whereas it is expedient to determine the liability to taxation for the time being in force in British India of the Government of any part of His Majesty's Dominions, exclusive of British India, in respect of any trade or business carried on by or on behalf of such Government; It is hereby enacted as follows:—

1. (1) This Act may be called the Government Trading Short title and commencement. Taxation Act, 1926.

(2) It shall come into force on such date* as the Governor General in Council may, by notification in the Gazette of India, appoint.

2. (1) Where a trade or business of any kind is carried on by or on behalf of the Government of any part of His Majesty's Dominions, exclusive of British India, that Government shall, in respect of the trade or business and of all operations connected therewith, all property occupied in British India and all goods owned in British India for the purposes thereof, and all income arising in connection therewith, be liable—

(a) to taxation under the Indian Income-tax Act, XI of 1922. 1922, in the same manner and to the same

* The Act came into force with effect from the 1st April 1926.

extent as in the like case a company would be liable;

- (b) to all other taxation for the time being in force in British India in the same manner as in the like case any other person would be liable.

(2) For the purposes of the levy and collection of income-tax under the Indian Income-tax Act, 1922, in accordance with the provisions of sub-section (1), any Government to which that sub-section applies shall be deemed to be a company within the meaning of that Act, and the provisions of that Act shall apply accordingly.

(3) In this section the expression "His Majesty's Dominions" includes any territory which is under His Majesty's protection or in respect of which a mandate is being exercised by the Government of any part of His Majesty's Dominions.

PART II.
RULES.

BOARD OF INLAND REVENUE.

Notification No. 3-I. T., dated the 1st April 1922 as subsequently amended.

In exercise of the powers conferred by section 59 of the Indian Income-tax Act, 1922 (XI of 1922), the Board of Inland Revenue has made the following rules, namely :—

1. These rules may be called the Indian Income-tax Rules, 1922.

2. Any firm constituted under an instrument of partnership specifying the individual shares of the partners may, for the purposes of clause (14) of section 2 of the Indian Income-tax Act, 1922 (hereinafter in these rules referred to as the Act), register with the Income-tax Officer the particulars contained in the said instrument on application in this behalf made by the partners or by any of them. **P. 10.**

Such application shall be made—

(a) before the income of the firm is assessed for any year under section 23 or

(b) if no part of the income of the firm has been assessed for any year under section 23, before the income of the firm is assessed under section 34, or

(c) with the permission of the Assistant Commissioner hearing an appeal under section 30, before the assessment is confirmed, reduced, enhanced or annulled, or, if the Assistant Commissioner sets aside the assessment and directs the Income-tax Officer to make a fresh assessment, before such fresh assessment is made

3. The application referred to in rule 2 shall be made in the form annexed to this rule and shall be accompanied by the original instrument of partnership under which the firm is constituted together with a copy thereof; provided that if the Income-tax Officer is satisfied that for some sufficient reason the original instrument cannot conveniently be produced, he may accept a copy of it certified in writing by one of the partners to be a correct copy, and in such a case the application shall be accompanied by a duplicate copy.

FORM I.

Form of application for registration of a firm under section 2 (14) of the Indian Income-tax Act, 1922.

To

THE INCOME-TAX OFFICER,

Dated

19 .

$\frac{I}{We}$ beg to apply for the registration of $\frac{my}{our}$ firm under section 2 (14) of the Indian Income-tax Act, 1922.

2. $\frac{\text{The original}}{\text{A certified copy}}$ of the instrument of partnership under which the firm is constituted specifying the individual shares of the partners together with $\frac{\text{a copy}}{\text{duplicate copy}}$ is enclosed. The prescribed particulars are given below.

3. $\frac{I}{We}$ do hereby certify that the profits of the current year will be actually divided or credited in accordance with the shares shown in this partnership deed.

Signature

Address

Name and address of the firm.	Names of the partners in the firm with the share of each in the business.	Date on which instrument of partnership was executed.	Date, if any, on which the instrument of partnership was last registered in the Income-tax Officer's office.	Remarks.

$\frac{I}{We}$ do hereby certify that the information given above is correct.

Signature(s)

4. (1) On the production of the original instrument of partnership or on the acceptance by the Income-tax Officer of a certified copy thereof, the Income-tax Officer shall enter in writing at the foot of the instrument or copy, as the case may be, the following certificate, namely :—

“ This instrument of partnership (or this certified copy of an instrument of partnership) has this day been registered with me, the Income-tax Officer for _____ in the province of _____ under clause (14) of section 2 of the Indian Income-tax Act, 1922. This certificate of registration has effect from the _____ day of April 19 _____ up to the 31st day of March 19 _____ .”

(2) The certificate shall be signed and dated by the Income-tax Officer who shall thereupon return to the applicant the instrument of partnership or the certified copy thereof, as the case may be, and shall retain the copy or duplicate copy thereof.

5. The certificate of registration granted under rule 4 shall have effect from the date of registration.

6. A certificate of registration granted under rule 4 shall have effect up to the end of the financial year in which it is granted, but shall be renewed by the Income-tax Officer from year to year on application made to him in that behalf and accompanied by a certificate signed by one of the partners of the firm that the constitution of the firm as specified in the instrument of partnership remains unaltered. Such application shall be made within the time and subject to the conditions, if any, which are specified in clause (a), clause (b), or clause (c), as the case may be of rule 2.

7. Under section 9 (1) (vi) of the Act, the sum to be **P. 34.** allowed in respect of collection charges shall not exceed 6 per cent. of the annual value of the property.

P. 46. 8. An allowance under section 10 (2) (vi) of the Act in respect of depreciation of buildings, machinery, plant or furniture shall be made in accordance with the following statement :—

Class of buildings, machinery, plant or furniture.	Rate.	Remarks.
	Percent- age on prime cost.	
1. Buildings*—		
(1) First class substantial buildings of selected materials.	2½	* Double these rates may be allowed for buildings used in industries which cause special deterioration, such as chemical works, soap and candle works, paper mills, and tanneries.
(2) Buildings of less substantial construction	5	
(3) Purely temporary erections such as wooden structures.	10	
2. Machinery, Plant or Furniture†—		
General rate	5	† The special rates for electrical machinery given below may be adopted, at firm's option for that portion of their machinery.
Rates sanctioned for special industries—		
Flour Mills, Rice Mills, Bone Mills, Sugar Works, Distilleries, Ice Factories, Aerating Gas Factories, Match Factories.	6½	
Paper Mills, Ship Building and Engineering Works, Iron and Brass Foundries, Aluminium Factories, Electrical Engineering Works, Motor Car Repairing Works, Galvanizing Works, Patent Stone Works, Oil Extraction Factories, Chemical Works, Soap and Candle Works, Lime Works, Saw Mills, Dyeing and Bleaching Works, Furniture and Plant in hotels and boarding houses, Cement Works using rotary kilns.	7½	
Plant used in connection with brick manufacture, tilemaking machinery, optical machinery, glass factories, Telephone Companies, Mines and Quarries, Tubewell boring plant, concrete pile driving machines, Plant or machinery used in the	10	
Sewing machines for canvas or leather	12½	
Motor cars used solely for the purpose of business	15	
Indigenous sugarcane crushers (<i>Kohls</i> or <i>Bolans</i>)	15	
Motor taxis, motor lorries and motor buses	20	
Ropeway ropes and trestle sheaves and connected parts.	25	
Ropeway structures—		
(1) Trestle and station steel work	5	
(2) Driving and tension gearing	7½	
(3) Carriers	10	
Salt Works—		
(1) Machinery, plant, locomotives, wagons and rolling stock.	10	
(2) Tugs, barges, motor launches and floating plant	7½	
(3) General plant and machinery used in engineering shops.	7½	

Class of buildings, machinery, plant or furniture.	Rate.	Remarks.
	Percent- age on prime cost.	
3. Electrical Machinery—		
(a) Batteries	15	
(b) Other electrical machinery, including elec- trical generators, motors (other than tram- way motors), switchgear and instruments, transformers and other stationary plant and wiring and fittings of electric light and fan installations.	7½	
(c) Underground cables and wires	6	
(d) Overhead cables and wires	2½	
4. Hydro-Electric concerns—		
Hydraulic works, pipe lines, sluices, and all other items not otherwise provided for in this state- ment.	2½	
5. Electric Tramways—		
Permanent way—		
(a) Not exceeding 50,000 car miles per mile of track per annum.	6½	
(b) Exceeding 50,000 and not exceeding 75,000 car miles per mile of track per annum.	7½	
(c) Exceeding 75,000 and not exceeding 1,25,000 car miles per mile of track per annum.	8½	
Cars—car tracks, car bodies, electrical equipment and motors.	7	
General plant, machinery and tools	5	
6. Mineral Oil concerns—		
A. Refineries—		
(1) Boilers	10	
(2) Prime movers	5	
(3) Process plant	10	
B. Field operations—		
(1) Boilers	10	
(2) Prime movers	5	
(3) Process plant	7½	
Except for the following items—		
(1) Below ground—All to be charged to revenue	...	

Class of buildings, machinery, plant or furniture.	Rate.	Remarks.
	Percent- age on prime cost.	
6. Mineral Oil concerns-- <i>contd.</i> Except for the following items-- <i>contd.</i>		
(2) Above ground—		
(a) Portable boilers, drilling tools, well-head tank, rigs, etc.	25	
(b) Storage tanks	10	
(c) Pipe lines—		
(i) Fixed boilers	10	
(ii) Prime movers	7½	
(iii) Pipe line	10	
7. Ships—		
(1) Ocean—		
(a) Steam	5	
(b) Sail or tug	4	
(2) Inland—		
(a) Steamers (over 120 ft. in length) .	5	
(b) Steamers including cargo launches (120 ft in length and under).	6	
(c) Tug boats	7½	
(d) Iron or steel flats for cargo, etc. .	5	
(e) Wooden cargo boats up to 50 tons capacity.	10	
(f) Wooden cargo boats over 50 tons capacity.	7½	
(g) Motor launches	10	
(h) Speed boats†	15	† "Speed Boats" means a motor-driven boat with a high speed internal combustion engine capable of propelling the boat at a speed exceeding 15 miles per hour in still water, and so designed that when running at speed it will plane—i.e., its bow will rise from the water.
8. Mines and Quarries—		
(1) Railway siding* (excluding rails) . .	5	* Depreciation on rails used for tramways and sidings, and in inclines where the rails are the property of the assessee, is allowed at 10 per cent. under item 2 above (plant used in connection with Mines and Quarries) in addition to any depreciation allowance on the cost of constructing the tramways sidings or inclines.
(2) Shafts	5	
(3) Inclines *	5	
(4) Tramways on the surface * (excluding rails)	10	
9. Aeroplanes—		
(1) Aircraft	25	
(2) Aero-engines ‡	33½	
(3) Aerial photographic apparatus . . .	20	

9. For the purpose of obtaining an allowance for de- **P. 46.**
preciation under proviso (a) to section 10 (2) (vi) of the Act,
the assessee shall furnish particulars to the Income-tax
Officer in the following form :—

Description of buildings, machinery, plant, or furniture.	Original cost.	Capital expenditure during the year for additions, alterations, improvements and extensions.	Date from which used for the purposes of the business.	Particulars (including original cost, depreciation allowed and value realised by sale of scrap value) of obsolete machinery, plant or furniture sold or discarded during the year, with dates on which first brought into use and sold or discarded.	Remarks.
1	1A	2	3	4	5

I declare that to the best of my information and belief the buildings, machinery, plant and furniture described in column 1 of the above statement were the property of during the year ended and that the particulars entered in the statement are correct and complete.

Place

Signature

Date

Designation

10. All sums deducted in accordance with the provisions of section 18 of the Act shall be paid by the person making the deduction to the credit of the Government of **P. 59.**

India on the same day as the deduction is made in the case of deduction by or on behalf of Government, and within one week from the date of such deduction in all other cases :

Provided that the Income-tax Officer may, in special cases, and with the approval of the Assistant Commissioner, permit a local authority, company, public body or association, or a private employer to pay the income-tax deducted from salaries quarterly on June 15th, September 15th, December 15th, and March 15th.

P. 59.

11. In the case of income chargeable under the head 'Salaries,' where deduction is not made by or on behalf of Government, the person paying the salary shall pay to the credit of the Government of India by remitting the amount to the Income-tax Officer concerned or to such officer as he may direct and shall send therewith a statement showing the name of the employé from whose salary the tax has been deducted, the period for which the salary has been paid, the gross amount of the salary, the deduction for a provident fund or insurance premia, and the amount of tax deducted.

11-A. The prescribed rate of exchange for the calculation of the value in rupees of any income chargeable under the head 'Salaries' which is payable to the assessee out of India by or on behalf of Government shall be the rate notified by the Controller of the Currency in respect of the recovery of contributions to the Indian Civil Service Fund for the month in which such income is payable.

P. 59.

12. In the case of income chargeable under the head 'Interest on securities,' where the deduction is not made by or on behalf of Government, the person responsible for paying the interest shall pay to the credit of the Government of India by remitting the amount to the Income-tax Officer concerned or to such officer as he may direct with a statement showing the following particulars :—

- (i) Description of securities.
- (ii) Numbers of securities.
- (iii) Dates of securities.
- (iv) Amounts of securities.
- (v) Period for which interest is drawn.
- (vi) Amount of interest, and
- (vii) Amount of tax.

13. The certificate to be furnished under section 18 (9) P. 61. of the Act by any person paying interest chargeable to income-tax on any security of the Government of India or of a local Government shall be in the following form:—

Draft No. ⁽¹⁾

Certified that Rs. _____ being income-tax at the rate of _____ pies per rupee has been deducted by draft of this date from Rs. _____ being the amount of interest _____ for Rs. _____ on ⁽²⁾ _____ for Rs. _____ standing in the name of _____ for Rs. _____

⁽¹⁾ This number also appears in the interest cages on the back of the Securities.
⁽²⁾ Name of Security.

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Superintendent or Principal Officer.

To be signed by claimant.

I hereby declare that the securities on which interest as above specified has been received were my own property and were in the possession of

at the time when income-tax was deducted.

Signature

Date

(N.B.—The securities to be produced when required in support of any claim).

13A. The certificate ⁽¹⁾ to be furnished under section P. 61. 18 (9) of the Act by the person paying any interest on debentures or other securities for money issued by or on behalf of a local authority or a company shall be in the following form:—

Name of Local Authority/Company.

Address

To ⁽²⁾

Name and address of payee ⁽³⁾

⁽¹⁾ In the case of bearer debentures or bonds a certificate under section 18 (9) shall only be given if the recipient of the interest declares the name and address of the real owner of the security at the time of receiving the interest.

⁽²⁾ Name and address of the owner of security should be given here. In the case of bearer debentures or bonds, these particulars are to be given as declared by the payee concerned.

⁽³⁾ To be completed only in the case of bearer debentures or bonds.

I/We hereby certify that Rs. being income-tax at the rate of pies per rupee has been deducted from Rs. being the amount of interest at the rate of per cent. per annum due ⁽¹⁾ on debentures Nos. of Rs. each of the ⁽²⁾ and that it has been or will, within the prescribed period, be paid by me/us to the Government of India at

Superintendent, Public Debt Office
or Principal Officer or Managing Agents.

193 .

(To be signed by claimant.)

I hereby declare that the securities on which interest as above specified has been received, were my own property and were in the possession of at the time when income-tax was deducted.

Signature

Date

(N.B.—The securities to be produced when required in support of any claim.)

P. 63. 14. The certificate to be furnished by the principal officer of a company under section 20 shall be in the following form :—

(Name of Company)

(Address of Company)

Date

WARRANT for Rs. (in words and figures or, if the certificate is crossed by an entry in words stating that the amount of dividend is under the next multiple of Rs. 50

⁽¹⁾ The date on which interest is payable.

⁽²⁾ Here enter the name of the local authority or the company.

above that amount, in figures only) , being dividend (1) at the rate of Rs. (in words and figures) per share for the (2) ending on the day of 19 , (3) on (4) shares in this company, registered in the name of This dividend was declared at the (5) meeting held on the (6)

192

(1) Or Dividend and bonus.
(2) Year or half year, as the case may be.
(3) Here enter whether free of income-tax or not.
(4) Here enter number and description of shares.
(5) Here specify number and nature of meeting.
(6) Here enter date.

I/we hereby certify that income-tax on the entire profits and gains of the company, of which this dividend forms a part, has been, or will be, duly paid by $\frac{\text{me}}{\text{us}}$ to the Government of India.

Signature

Office

(To be signed by the claimant.)

I hereby certify that the dividend above mentioned relates to shares which were my own property at the time when the dividend was declared and were in the possession of

Signature

Date

15. The returns for Government officers under section P 64. 21 of the Act shall be prepared and submitted to the Income-tax Officer by :—

(a) Civil Audit Officers for all gazetted officers and others who draw their pay from audit offices

on separate bills; and also for all pensioners who draw their pensions from audit offices.

- (b) Treasury officers for all gazetted officers and others who draw their pay from treasuries on separate bills without countersignature; and also for all pensioners who draw their pensions from treasuries.
- (c) Heads of Civil or Military offices for all non-gazetted officers whose pay is drawn on establishment bills or on bills countersigned by the head of office.
- (d) Forest disbursing officers and Public Works department disbursing officers in cases where direct payment from treasuries is not made, for themselves and their establishments.
- (e) Head postmasters for (i) themselves, their gazetted subordinates and the establishments of which the establishment pay bills are prepared by them and (ii) gazetted supervising and controlling officers of whose headquarters post office they are in charge; Head Record Clerks, Railway Mail Service, for themselves and all the staff whose pay is drawn in their establishment pay bills; the Disbursing Officers in the case of the Administrative and the Audit offices.
- (f) Controllers of Military Accounts (including Divisional Military Supply, Marine, Field and War Controllers) for all gazetted military officers under their audit.
- (g) Disbursing officers in the Military Works Department for themselves and their establishments.
- (h) Chief Examiners of Accounts or Chief Auditors of Railways concerned for all railway employés under their audit.

P. 64.

16. The minimum income under the head "Salaries" referred to in section 21 (a), shall be Rs. 2,000 per annum.

P. 65. 18. (1) The return of total income of companies required under section 22 (1) shall be in the following form and shall be accompanied by a copy of the profit and loss account referred to therein:—

Income, profits or gains from business, trade, commerce.

	Rs.	A.	P.
Income, profits, or gains as per profit and loss account for the year ended 19			
<i>Add</i> —Any amount debited in the accounts in respect of—			
1. Reserve for bad debts			
2. Sums carried to reserve for provident or other funds			
3. Expenditure of the nature of charity or presents			
4. Expenditure of the nature of capital			
5. Income-tax or Super-tax			
6. Rental value of property owned and occupied			
7. Cost of additions to, or alterations, extensions, improvements of, any of the assets of the business			
8. Interest on reserve or other funds			
9. Losses sustained in former years			
10. Losses recoverable under an insurance or contract of indemnity.			
11. Depreciation of any of the assets of the business			
12. Expenses not incurred solely for the purpose of earning the profits.			
TOTAL			
<i>Deduct</i> —Any profits included in the accounts already charged to Indian income-tax and the interest on securities of the Government of India or of local Governments declared to be income-tax free.			
BALANCE			

If the company owns any property not occupied for the purposes of the business a statement in the form prescribed in Schedule A to rule 19 should be attached with particulars of the credit and debit on account of such property entered in the accounts.

Declaration.

I, the [Secretary, etc., (see section 2 (12) of the Act)] of the (name of Company) declare that the information against each head in this return is correctly given as shown in the books of the Company as also in the accounts which have been duly audited by the auditors of the Company and which have been adopted by the shareholders of the Company.

(Signature)

(Designation)

Dated

19 .

(2) The company shall also attach to the return a statement showing the sums charged in the accounts under the provisions of section 58K (2).

19. The return of total income for individuals, firms, **P. 66.** Hindu undivided families and other associations of individuals not being companies required under section 22 (2) shall be in the following form :—

Statement of total income during the previous year.

1 Sources of Income.	2 Amount of profits or gains or income during the previous year.	3 Tax already charged on the income.
	Rs.	Rs.
1. Salaries (including wages, annuity, pension, gratuity, fees, commission, allowances, perquisites, including rent-free quarters,) or profits received in lieu of, or in addition to salary or wages . . . [See note (1)]		
1A. The contributions made by an employer to the account in a recognised provident fund of the person making the return . . .		
1B. The interest accruing to the account mentioned in 1A which is not exempt from income-tax [section 58F (2)] . . .		
2. Interest on securities (including debentures) already taxed . . . , (2)		
3. Interest on securities of the Government of India or of local Governments declared to be income-tax free . . . [See note (3)]		
4. Property as shown in detail in Schedule A . . . , (4)		
5. Business, trade, commerce, manufacture, or dealings in property, shares or securities (details as in note 5) . . . , (5)		
6. Profession . . . , (6)		
7. Dividends from Companies (net) . . . , (7)		
8. Interest on mortgages, loans, fixed deposits, current accounts, etc., not bearing income from business . . .		
9. Ground rent . . .		
10. Any source other than those mentioned above including any income earned in partnership with others . [See note (8)]		
Total .		

Statement of total income during the previous year—contd.

1 Sources of Income.	2 Amount of profits or gains or income during the previous year.	3 Tax already charged on the income.
	Rs.	Rs.
Deductions claimed— (a) on account of insurance premia (b) on account of contributions to a provident fund to which the Provident Funds Act applies (c) on account of contributions to a recognised provident fund [section 58A (a)] (d) others		

I declare that to the best of my knowledge and belief the information given in the above statement is correct and complete, that the amounts of income shown are truly stated and relate to the year ended _____ and that no

other income accrued or arose or was received by $\frac{\text{me}}{\frac{\text{the firm}}{\frac{\text{the family}}{\text{the association}}}}$

during the said year and that $\frac{\text{I}}{\frac{\text{the firm}}{\frac{\text{the family}}{\text{the association}}}}$ had during the said year no other sources of income.

Signature

Date

N.B.—(a) Income accruing to you outside British India received in British India is liable to taxation, and must be entered by you in the form.

(b) All income from whatever source derived must be entered in the form, including income received by you as a partner of a firm.

NOTE 1.—In column 2 should be shown the gross amount of salary and not the net amount after deduction on account of income-tax, provident funds, etc.

NOTE 2.—“Interest on securities” means the interest on promissory notes or bonds issued by the Government of India or a local Government, or the interest on debentures or other securities for money issued by or on behalf of a local authority or company. Where income-tax has been deducted from the interest, or where the interest has been paid income-tax free, the amount of tax so deducted or paid should be added to the amount of interest actually received, and the gross amount so arrived at should be entered in column 2 of the statement. The term “interest on securities” does not include interest on fixed deposits or mortgages or other loans, which have to be shown under heading 8.

The interest on securities of the Government of India or of local Governments declared to be income-tax free should be shown under head 3. Those which are not declared to be income-tax free should be included under this head.

Entries under this head must be supported by the certificate issued by the person or Company paying the interest under section 18 (9) of the Act.

NOTE 3.—(a) The income-tax payable on the interest receivable on a security of a Local Government issued income-tax free is payable by the Local Government and not by the holder of the security.

(b) Only the interest on securities of the *Government of India* or of a Local Government declared to be income-tax free should be entered against this head. Such interest will not be charged to income-tax, but it must be included in the statement of total income in order to ascertain the rate of income-tax chargeable on other' income. *It is chargeable to super-tax.*

(c) Particulars of any interest on securities issued by other authorities and stated to be free of income-tax should be entered against head 2, as income-tax on such interest is actually paid by these authorities on behalf of the recipients.

NOTE 4.—The tax is payable under this head in respect of the *bonâ fide* annual value of any buildings or lands appurtenant thereto of which you are the owner, other than such portions of such buildings and lands as you may occupy for the purpose of your business.

SCHEDULE A.

1	Serial number.
2	Name of village or town where the property is situated.
3	Name of mohalla or street and number of property if any.
4	In the case of Municipalities the name of the person in whose name the property stands in the municipal registers.
5	Where the property is occupied by owner or is let.
6	Annual letting value of the property.
7A	Period during which the property remained vacant.
7	Amount of rent actually received for the property if let.
8	Of one-sixth of the annual letting value shown in column 6.
9	Premium paid to insure the property against damage or destruction.
10	Interest paid on a mortgage or charge on the property.
11	Ground rent paid for the property.
12	Land revenue paid for the property.
13	Collection charges paid.
13A	Amount claimed on account of property remaining vacant.
14	Total of columns 8 to 13A.
15	Net amount to be carried over to the front of the form.

NOTE 5.—(a) Where you keep your accounts on the mercantile accountancy or book profits system, you must file return in the following form:—

Income, profits or gains from business, trade, commerce.

	Rs.
Income, profits or gains as per Profit and Loss Account for the year ended 19 .	
<i>Add.</i> —Any amount debited in the accounts in respect of—	
1. Reserve for bad debts	
2. Sums carried to reserve for provident or other funds .	
3. Expenditure of the nature of charity or presents . .	
4. Expenditure of the nature of capital	
5. Income-tax or Super-tax	
6. Drawings or salary of proprietor or partners	
7. Rental value of property owned and occupied . . .	
8. Cost of additions to, or alterations, extensions, improvements of any of the assets of the business.	
9. Interest on the proprietor's or partner's capital including interest on reserve, or other funds.	
10. Losses sustained in former years	
11. Losses recoverable under an insurance or contract of indemnity	
12. Depreciation of any of the assets of the business . .	
13. Private or personal expenses and expenses not incurred solely for the purpose of earning the profits.	
TOTAL .	
<i>Deduct.</i> —Any profits included in the account already charged to Indian income-tax and the interest on securities of the Government of India or of local Governments declared to be income-tax free.	
BALANCE .	

Signature of the person making the return.

Date 19 .

(b) Where you do not keep your accounts in such a form, you must file a statement showing how you arrive at the taxable profits, i.e., showing details of the gross receipts and of the expenditure you propose to set against those receipts. No deductions are permissible on account of—

- (i) Property owned and occupied by the owner of a business for the purposes of a business;
- (ii) Additions to or alterations, extensions, or improvements of any of the assets of the business;
- (iii) Interest on the capital of the proprietors or partners of the business;
- (iv) Bad debts not actually written-off in the accounts;
- (v) Losses sustained in previous years;
- (vi) Reserves of any kind;

- (vii) Sums paid on account of the income-tax or super-tax or any tax levied by a local authority other than local rates or municipal taxes in respect of the portion of the premises used for the purpose of the business;
- (viii) Any expenditure of the nature of charity or a present;
- (ix) Any expenditure of the nature of capital;
- (x) Any loss recoverable under an insurance or a contract of indemnity;
- (xi) Depreciation of any kind other than that specified in the Act;
- (xii) Drawings or salaries of the proprietors or the partners;
- (xiii) Private or personal expenses of the assessee;
- (xiv) Any expenditure of any kind which is not incurred solely for the purpose of earning the profits.

If you have included any such sums in your expenditure in your books, you must exclude them from the expenditure permissible for the purpose of arriving at your taxable profits.

(c) You are also required to attach a statement showing the sums charged in your accounts under the provisions of section 58K (2).

NOTE 6.—The income, profits or gains shall be computed after making allowance for any expenditure (not being in the nature of capital expenditure) incurred solely for the purpose of such profession or vocation, provided that no allowance is made on account of any of your personal expenses. Professional fees received by you in any part of India (whether within British India or not) must be included by you in your receipts.

NOTE 7.—Income-tax chargeable on the profits of companies is paid by the companies, so that the dividends received by shareholders represent the net amount remaining after any income-tax due by the company has been paid. This amount should be entered in column 2 of the statement. The proportionate tax will be added in the Income-tax Office.

If the rate of tax applicable to your total income is less than the rate of tax applicable to the profits or gains of the company at the time of the declaration of such dividends, you may, by attaching the company's certificate received with the dividends, have the excess collected on your dividends from the company set against the tax payable by you on your other income instead of having to apply separately for a refund.

NOTE 8.—Agricultural income from land not paying land revenue or local rates to an authority in British India should be included under this head or under income from business according to circumstances.

NOTE 9.—Deductions from total income can only be made for insurance premia in respect of insurance on your own life or on the life of your wife, or in respect of a contract for a deferred annuity on your own life or on the life of your wife. No deduction is permissible in the case of any other form of insurance except in the case of Hindu undivided families where deductions are permissible on account of premia paid in respect of insurance on the life of any male member of the family or of his wife. The original receipt or the certificate of the insurance company to which the premium was paid must be attached to the return.

20. The Notice of Demand under section 29 shall be in **P. 77.** the following form :—

NOTICE OF DEMAND UNDER SECTION 29 OF THE INCOME-TAX ACT, 1922.

To

1. You have been assessed for the year to income-tax amounting to Rs. [in addition to which a

penalty of Rs. _____ has been imposed], as shown in the copy of the assessment form sent herewith.

2. You have also been assessed to super-tax amounting to Rs. _____

3. You are required to pay the amount of Rs. _____ on or before the _____ to _____ at _____ when you will be granted a receipt.

4. If you do not pay the tax on or before the date specified above, you will be liable to a penalty which may be as great as the tax due from you.

5. If you are dissatisfied with your assessment you may present an appeal under sub-section (1) of section 30 of the Indian Income-tax Act, 1922, to the Assistant Commissioner of Income-tax at _____ within 30 days from the receipt of this notice, on a petition duly stamped in the form prescribed under sub-section (3) of section 30 and verified as laid down in that form.

Or

The assessment has been made under sub-section (4) of section 23 of the Indian Income-tax Act, 1922, because you

failed to make a return of your income under section 22
to comply with a notice under sub-section (1) of section 2, and no ap-
to comply with a notice under sub-section (2) of section 23

peal lies. But if you were prevented by sufficient cause from making the return or did not receive the notice(s) aforesaid, or had not a reasonable opportunity to comply, or were prevented by sufficient cause from complying, with the terms of the notice(s), you may apply to me within one month from the receipt of this notice under section 27, to cancel the assessment and proceed to make a fresh assessment.

6. The appropriate chalan should be sent along with the amount paid. Should you lose the chalans attached to this notice of demand, it will be necessary for you to apply to the Income-tax Officer for copies of fresh chalans.

Dated

19 .

Income-tax Officer.

Place

NOTE.—The superfluous words in paragraph 5 should be deleted.

ASSESSMENT FORM.

ASSESSMENT FOR 193 -193 UNDER SECTION , ACT XI OF 1922.

District or Area.

Name of assessee

Number in General Index

Address

Number of miscellaneous record

Serial No.	Detailed sources of income.	Amount of income.	Tax deducted at source.		Remarks
			Rs.	A.	
1	Salary (including employee's provident fund contributions).				
1A	Annual accretion (less employee's provident fund contribution) under section 58A(f).				
2	Interest on securities				
3	Property				
4	Business				
5	Profession				
6	Other sources				
			Rs.	A.	Rs. A.
(i) Total income					
(ii) Deduction under section 7 (i) or on account of provident fund, to which the Provident Fund Act, 1897, applies.					
(iii) Deduction on account of recognised provident fund—					
(a) Contributions					
(b) Exempted interest					
(iv) Deduction on account of insurance premia					
(v) Deduct sums received as dividends or from a firm the profits of which have been charged to income-tax.					
(vi) Deduct amount of interest from tax-free securities of the Government of India or of a local Government.					
(vii) Income now to be subjected to income-tax					
(viii) Rate applicable.....pics per rupee					
(ix) Amount of income-tax					

	Rs.	A.	Rs.	A.
(x) Deduction under section 17				
(xi) Amount of deductions at source from salary or interest on securities for which credit is given under section 18 (5).				
(xii) Abatement on account of dividends (at..... ples per rupee).				
(xiii) Abatement on account of income from a registered firm (at..... pies per rupee).				
(xiv) Net amount of income-tax (or refund)				
(xv) Amount of super-tax				
(xvi) Penalty under section 28 or section 25 (2)				
(xvii) Total sum payable (or to be refunded)—(in figures as well as in words).				
Rupees.....				
annas.....				

Dated

193 .

Income-tax Officer.

Classification of demand.

Serial No.	Classification.	Amount of tax.	
		Rs.	A.
1	Salaries—		
	(a) Paid by Government		
	(b) " a local authority		
	(c) " companies, other bodies and associations		
	(d) " private employers		
2	*Interest on securities—		
	(a) on securities of the Government of India		
	(b) " " local Governments		
	(c) on debentures and other securities of a local authority or company.		
3	Income derived from property		
4	" " business		
5	Professional earnings		
6	Income derived from other sources		
	Total		
	Deduction on account of section 7 (i), 15 or 58F		
	Deduction on account of section 17		
	Total of refunds and rebates as in the classification page below.		
	Penalty under section 25 (2)		
	" " " 28		
	Net demand (or refund)		

* Where the result of an assessment is an abatement the sum allowed as a refund or rebate should be entered in the classification page below.

**Classification of refunds and rebates.*

Source of income.	Rate of refund or rebate.	Amount of refund or rebate.	
		Rs.	A.
.			
.			

* Items (xii) and (xiii) on pre-page and abatement regarding securities.

Record of cash refunds.

Date of issue of notice of demand.					
Number of voucher . .					
Date of voucher . .					
Amount of refund . .					
Reason for refund . .					

† Return.

N=Not submitted.

A=Submitted and accepted.

R=Submitted, but assessment not based on it.

† Accounts.

N=Not submitted.

A=Submitted and accepted.

R=Submitted, but assessment not based on them.

† NOTE.—For the purpose of compiling Annual Return No. VIII. I. T. Os. should invariably strike out the inapplicable entries.

FORM A.

To

The Assistant Commissioner of

The day of 19 .

The petition of _____ of _____ post office,
District sheweth as follows :—

1. Under the Indian Income-tax Act, 1922, your petitioner has been assessed' on the sum of Rs. for
the year commencing the 1st day of April 19 ..

2. Your petitioner was prevented by sufficient cause from making the return required by section 22 or did not receive the notice issued under sub-section (4) of section 22, or sub-section (2) of section 23, or had not a reasonable opportunity to comply or was prevented by sufficient cause from complying with the terms of the notice under sub-section (4) of section 22 or sub-section (2) of section 23, as more particularly specified in the statement attached.

3. Your petitioner therefore presented a petition to the Income-tax Officer under section 27, requesting him to cancel the assessment. This petition, the Income-tax Officer, by his order dated _____ of which a copy is attached, has rejected.

4. Your petitioner therefore requests that the order of the Income-tax Officer may be set aside and that he may be directed to make a fresh assessment in accordance with the law.

Signed

STATEMENT OF FACTS.

Form of verification.

I, _____, the petitioner, named in the above petition, do declare that what is stated therein and in the above statement of facts is true to the best of my information and belief.

Signed.

FORM B.

Form of appeal against assessment to Income-tax.

To

The Assistant Commissioner of

The _____ day of _____ 19 .

The petition of _____ of _____ post office,
District sheweth as follows :—

1. Under the Indian Income-tax Act, 1922, your petitioner has been assessed on the sum of Rs. _____ for the year commencing the 1st day of April 19 . The notice of demand attached hereto was served upon him on _____

2. Your petitioner's income accruing or arising or received or deemed under the provisions of the Act to accrue or arise or to be received in British India for the year ending the _____ day of 19 _____ amounted to Rs. _____

3. Such income and profits actually accrued or arose or were received during the period of _____ months and _____ days.

4. During the said year your petitioner had no other income or profits.

5. Your petitioner has made a return of his income to the Income-tax Officer _____ under section 22, sub-section (2) of the Act and has complied with all the terms of the notice served on him by the Income-tax Officer under section 23 (2), and/or [section 22 (4)].

Your petitioner therefore prays that he may be assessed accordingly (or that he may be declared not to be chargeable under the Act).

Signed

GROUND S OF APPEAL.

Form of verification.

I, _____, the petitioner, named in the above petition, do declare that what is stated therein is true to the best of my information and belief.

Signed

FORM C.

Form of appeal against an order under section 25 (2).

To

The Assistant Commissioner of Income-tax.

The _____ day of _____

The petition of _____ of _____ post office, District sheweth as follows:—

1. Under section 25 (2) of the Indian Income-tax Act, 1922, a penalty of Rs. _____ has been imposed on your petitioner. The notice of demand attached hereto was served upon him on _____.

2. Your petitioner was prevented by sufficient cause as more particularly explained below from giving notice within the time prescribed by section 25 (2) to the Income-tax Officer of the discontinuance of his business, profession or vocation.

3. Your petitioner therefore requests that the order of the Income-tax Officer imposing a penalty of Rs. _____ upon your petitioner may be set aside.

Signed

STATEMENT OF FACTS.

Form of verification.

I, _____, the petitioner, named in the above petition, do declare that what is stated therein and in the above statement of facts is true to the best of my information and belief.

Signed

FORM D.

Form of appeal against an order under section 28.

To

The Commissioner of Income-tax.

The Assistant Commissioner of Income-tax.

The day of 19 .

The petition of of post office,

District sheweth as follows :—

1. Under section 28 of the Indian Income-tax Act, 1922, a penalty of Rs. has been imposed on your petitioner by the Income-tax Officer
Assistant Commissioner. The notice of demand attached hereto was served upon him on .

2. Your petitioner did not conceal the particulars of his income or deliberately furnish inaccurate particulars thereof but as will be seen from the statement of facts attached returned it at its real amount to the best of his knowledge and belief.

3. Your petitioner therefore requests that the order of ~~the~~ Income-tax Officer
Assistant Commissioner imposing a penalty of Rs. upon your petitioner may be set aside.

Signed

STATEMENT OF FACTS.

Form of verification.

I, , the petitioner, named in the above petition, do declare that what is stated therein is true to the best of my information and belief.

Signed

22. An appeal under section 32 (2) shall in the case of **P. 80.** an appeal against an order of an Assistant Commissioner under section 28 be in Form D attached to Rule 21 and in other cases in Form E.

FORM E.

To

The Commissioner of Income-tax,

The day of

19

The petition of sheweth as follows:—

1. Under section 31 (3) of the Indian Income-tax Act, 1922, the Assistant Commissioner of has increased the tax payable by your petitioner from Rs. to Rs.

2. Your petitioner prays that the enhancement may be set aside or reduced to Rs. for the reasons stated below :

Signed

GROUNDS OF APPEAL.

Form of verification.

I, , the petitioner, named in the above petition, do declare that what is stated therein is true to the best of my information and belief.

Signed

22-A. An appeal to the Commissioner for a reference to a Board of Referees shall, in cases falling under sub-section (1) of section 23-A, be in form F, and, in cases falling under sub-section (2) of section 23-A, be in form G.

FORM F.

To

The Commissioner of Income-tax,

The day of

19

The petition of sheweth as follows :

1. The Income-tax Officer , with the previous approval of the Assistant Commissioner of has passed an order dated of which a copy is attached under sub-section (1) of section 23A of the Indian Income-tax Act, 1922, that the sum payable as income-tax by the ^{firm} associat on known as

shall not be determined and that the share of your petitioner in the profits and gains of the said $\frac{\text{firm}}{\text{associations}}$ shall be included in his total income for the purpose of assessment; and a notice of the said order has been served upon your petitioner on the _____ day of _____.

2. Your petitioner, being aggrieved, for the reasons stated below, by the order of the Income-tax Officer, prays that the said order may be set aside.

Signed

GROUND S OF APPEAL.

Form of verification.

I, _____, the petitioner, named in the above petition, do declare that what is stated therein is true to the best of my information and belief.

Signed .

FORM G.

To

The Commissioner of Income-tax,

The _____ day of _____

19 .

The petition of _____ sheweth as follows:—

1. The Income-tax Officer of _____, with the previous approval of the Assistant Commissioner of _____ has passed an order dated _____ of which a copy is attached under sub-section (2) of section 23-A of the Indian Income-tax Act, 1922, that the sum payable as Income-tax by the company known as the _____ shall not be determined and that the proportionate share of your petitioner in the profits and gains of the said company shall be included in his total income for the purpose of assessment; and a notice of the said order has been served upon your petitioner on the _____ day of _____.

2. Your petitioner, being aggrieved, for the reasons set out below, by the order of the Income-tax Officer, prays that the said order may be set aside.

Signed

GROUNDS OF APPEAL.

Form of verification.

I, _____, the petitioner, named in the above petition, do declare that what is stated therein is true to the best of my information and belief.

Signed .

P. 2. 23. (1) In the case of income derived in part from agriculture and in part from business an assessee shall be entitled to deduct from such income the market value of any agricultural produce raised by him or received by him as rent in kind which he has utilized as raw material for the purposes of his business or the sale receipts of which are included in the accounts of his business. The balance of such income shall be deemed to be income derived from the business and no further deduction shall be made therefrom in respect of any expenditure incurred by the assessee as a cultivator or receiver of rent in kind.

P. 2. (2) For the purposes of sub-rule (1) "market value" shall be deemed to be :—

- (a) where agricultural produce is ordinarily sold in the market in its raw state, or after application to it of any process ordinarily employed by a cultivator or receiver of rent in kind to render it fit to be taken to market, the value calculated according to the average price at which it has been so sold during the year previous to that in which the assessment is made.
- (b) where agricultural produce is not ordinarily sold in the market in its raw state, the aggregate of—

- (1) the expenses of cultivation;
- (2) the land revenue or rent paid for the area in which it was grown; and
- (3) such amount as the Income-tax officer finds, having regard to all the circumstances in each case, to represent a reasonable date of profit on the sale of the produce in question as agricultural produce.

24. Income derived from the sale of tea grown and manufactured by the seller in British India shall be computed as if it were income derived from business, and 40 per cent. of such income shall be deemed to be income, profits and gains liable to tax.

25. In the case of Life Assurance Companies incorporated in British India whose profits are periodically ascertained by actuarial valuation, the income, profits and gains of the Life Assurance Business shall be the average annual net profits disclosed by the last preceding valuation, provided that any deductions made from the gross income in arriving at the actuarial valuation which are not admissible for the purpose of income-tax assessment, and any Indian income-tax deducted from or paid on income derived from investments before such income is received, shall be added to the net profits disclosed by the valuation. **P. 107.**

26. Rule 25 shall apply also to the determination of the income, profits and gains derived from the annuity and capital redemption business of life assurance companies, the profits of which can be ascertained from the results of an actuarial valuation. **P. 107.**

27. If the Indian income-tax deducted from interest on the investments of a company exceeds the tax on the income, profits and gains thus calculated, a refund may be permitted of the amount by which the deduction from interest on investments exceeds the tax payable on such income, profits and gains. **P. 107.**

28. In the case of other classes of insurance business (fire, marine, motor car, burglary, etc.) of a company incorporated in British India, the income, profits or gains shall be determined in accordance with the provisions of the Act, subject to the allowance specified in the rule next following. **P. 107.**

29. If in the ordinary accounts of any insurance business other than Life Assurance, Annuity, or Capital Redemption Business carried on by an Insurance Company any amount is actually charged against the receipts for the sole purpose of forming a reserve to meet outstanding liabilities or unexpired risk in respect of policies which have been issued (including risk of exceptional losses) and is not used for any other purpose such amount may be treated as expenditure incurred solely for the purpose of earning the profits of the business. **P. 107.**

- P. 107.** 30. Any amount either written-off in the accounts or through the Actuarial Valuation Balance Sheet to meet depreciation of, or loss on, securities or other assets, or which is carried to a reserve fund formed for that sole purpose and not used for any other purpose, may be treated as expenditure incurred solely for the purpose of earning the profits of the business. Any sums taken credit for in the accounts or Actuarial Valuation Balance Sheet on account of appreciation of or gains on the securities or other assets shall be deemed to be income chargeable to tax, subject always to deduction of such portion thereof as has been otherwise taken into account in calculating the income, profits or gains.
- P. 107.** 31. The income, profits and gains of companies carrying on Dividing Society or Assessment business shall be taken at 15 per cent. of the premium income in the previous year and, in the case of non-resident companies, at 15 per cent. of the Indian premium income in the previous year.
- P. 107.** 32. Notwithstanding anything contained in rules 25 to 31, the total income, however, of an insurance company carrying on more than one class of business shall be determined by its aggregate income from all classes of businesses.
- P. 87.** 33. In any case in which the Income-tax Officer is of opinion that the actual amount of the income, profits or gains accruing or arising to any person residing out of British India whether directly or indirectly through or from any business connection in British India cannot be ascertained, the amount of such income, profits or gains for the purposes of assessment to income-tax may be calculated on such percentage of the turnover so accruing or arising as the Income-tax Officer may consider to be reasonable, or on an amount which bears the same proportion to the total profits of the business of such person (such profits being computed in accordance with the provisions of the Indian Income-tax Act) as the receipts so accruing or arising bear to the total receipts of the business, or in such other manner as the Income-tax Officer may deem suitable.
- P. 87.** 34. The profits derived from any business carried on in the manner referred to in section 42 (2) of the Act may be determined for the purposes of assessment to income-tax according to the preceding rule.

35. The total income of the Indian branches of non-resident insurance companies (Life, Marine, Fire, Accident, Burglary, Fidelity Guarantee, etc.), in the absence of more reliable data, may be deemed to be the proportion of the total income, profits or gains, of the companies, corresponding to the proportion which their Indian premium income bears to their total premium income. **P. 87, 107.**

36. In the case of a person resident in British India, an application for a refund of income-tax under section 48 of the Act shall be made in the following form:— **P. 92.**

Application for refund of income-tax.

I, _____ of _____ do hereby state that my total income computed in accordance with section 16 of the Indian Income-tax Act, XI of 1922, accruing or arising or received in British India, or deemed under the Act to accrue or arise or to be received in British India, during the year ending on the 31st March 19____, amounted to Rs. _____ only.

I therefore pray for a refund of

Rs. _____	under "Salaries".	(The portion not required should be scored out.)
Rs. _____	under "Securities".	
Rs. _____	under "Dividends from companies".	
Rs. _____	under "Share of profits of the registered firm" known as _____ of which I am a partner.	

Signature

I hereby declare that I am resident in British India, and that what is stated in this application is correct.

Dated _____ 19____.

Signature

36A. In the case of a person not resident in British India, an application for a refund of income-tax under section 48 of the Act shall be made in the following form:— **P. 92.**

Application for refund of income-tax.

I, _____ of _____ residing at _____ in _____ (country) do hereby state that my total income computed in accordance with section 48 (4) of the Indian Income-tax Act, 1922,

during the year ending on the 31st March 19 , amounted to Rs. only, as per return enclosed.

I therefore pray for a refund of

(The portions
not required
should be
scored out.)

Rs. under "Salaries".
Rs. under "Securities".
Rs. under "Dividends from companies".

Rs. under "Share of profits of the registered firm" known as of which I am a partner.

Signature

I hereby declare that I am a British subject. (See note 2.)
subject of State being a State in India.
I also declare that what is stated in this application is correct.

Dated

19

Signature

Sworn before me (Name)
Designation Signature at on



NOTE 1.—The above declaration shall be sworn (a) before a Justice of the Peace, a Notary Public or Commissioner of Oaths if the applicant for refund resides in any part of His Majesty's Dominions outside British India, (b) before a Magistrate or other official of the State or a Political Officer if he resides in a State in India, (c) before a British Consul if he resides elsewhere.

NOTE 2.—"British subject" means a person who is a natural-born British subject, or a person to whom a certificate of naturalization has been granted.

P. 92.

37. The application under rule 36 shall be accompanied by a return of total income in the form prescribed under section 22 unless the applicant has already made such a return to the Income-tax Officer.

37-A. The application under Rule 36-A shall be accompanied by a return of total income in the following form the details of Part I of which but not the total may be

omitted if the person has already submitted a return under section 22 (2) for the same year :—

PART I.

Statement of total income accruing or arising or received in British India, or deemed under the Act to accrue or arise or to be received in British India, during the previous year.

1 Sources of income.	2 Amount of profits or gains or income during the previous year.	3 Tax already charged on the income.
	Rs. A.	Rs. A.
1. Salaries (including wages annuity, pension, gratuity, fees, commission, allowances, perquisites, including rent-free quarters) or profits received in lieu of, or in addition to, salary or wages [See note (1)]		
1A. The contributions made by an employer to the account in a recognised provident fund of the person making the return		
1B. The interest accruing to the account mentioned in 1A which is not exempt from income-tax [Section 53F (2)]		
2. Interest on securities (including debentures) already taxed (2)		
3. Interest on securities of the Government of India or of local Governments declared to be income-tax free (3)		
4. Property as shown in detail in Schedule A (4)		
5. Business, trade, commerce, manufacture, or dealings in property, shares or securities (details as in note 5) (5)		
6. Profession (6)		
7. Dividends from companies (7)		
8. Interest on mortgages, loans, fixed deposits, current accounts, etc., not being income from business		
9. Ground rent		
10. Any source other than those mentioned above including any income earned in partnership with others [See note (8)]		

Draft Amendments.

- (1) In Part I of the statement of total income in Rule 37-A of the said Rules, the entries relating to deductions shall be omitted.

PART II.

Verification.

I declare that to the best of my knowledge and belief the information given in the above statement is correct and complete, that the amounts of income shown are truly stated and relate to the year ended _____ and that no other income accrued or arose or was received by $\frac{\text{me}}{\text{the firm}}$ during the said year and that $\frac{\text{I}}{\text{the firm}}$ have no other sources of income.

*Signature**Date*

N.B.—(a) Income accruing to you outside British India received in British India, should be entered in Part I and not in Part II.

(b) All income from whatever source derived must be entered in the form including income received by you as a partner of a firm.

(c) "Previous year" means the twelve months ending on the 31st day of March next preceding the year for which the assessment is to be made, or, if the accounts of the assessee have been made up to a date within the said twelve months in respect of a year ending on any date other than the said 31st day of March, then at the option of the assessee the year ending on the day to which his accounts have so been made up.

NOTE 1.—In column 2 should be shown the gross amount of salary and not the net amount after deductions on account of income-tax, provident funds, etc.

NOTE 2.—"Interest on securities" means the interest on promissory notes or bonds issued by the Government of India or a local Government, or the interest on debentures or other securities for money issued by or on behalf of a local authority or company. Where income-tax has been deducted from the interest, or where the interest has been paid income-tax free, the amount of tax so deducted or paid should be added to the amount of interest actually received, and the gross amount so arrived at should be entered in column 2 of the statement. The term "interest on securities" does not include interest on fixed deposits or mortgages or other loans, which have to be shown under heading 8.

The interest on securities of the Government of India or of local Governments declared to be income-tax free should be shown under head 3. Those which are not declared to be income-tax free should be included under this head.

Entries under this head must be supported by the certificate issued by the person or company paying the interest under section 18 (9) of the Act.

NOTE 3.—(a) The income-tax payable on the interest receivable on a security of a local Government issued income-tax free is payable by the local Government and not by the holder of the security.

(b) Only the interest on securities of the Government of India or of a local Government declared to be income-tax free should be entered against this head. Such interest will not be charged to income-tax but it must be included in the statement of total income in order to ascertain the rate of income-tax chargeable on other income. *It is chargeable to super-tax.*

(c) Particulars of any interest on securities issued by other authorities and stated to be free of income-tax should be entered against head 2, as income-tax on such interest is actually paid by these authorities on behalf of the recipients.

NOTE 4.—The tax is payable under this head in respect of the *bond fide* annual value of any buildings or lands appurtenant thereto, of which you are the owner, other than such portions of such buildings and lands as you may occupy for the purpose of your business.

SCHEDULE A.

1	Serial number.
2	Name of village or town where the property is situated.
3	Name of street and number of property.
4	In the case of municipalities the name of the person in whose name the property stands in the municipal registers.
5	Whether the property is occupied by owner or is let.
6	Annual letting value of the property.
6A	Period during which the property remained vacant.
7	Amount of rent actually received for the property, if let.
8	One-sixth of the annual letting value shown in column 6.
9	Premium paid to insure the property against damage or destruction.
10	Interest paid on a mortgage or charge on the property.
11	Ground rent paid for the property.
12	Land revenue paid for the property.
13	Collection charges paid.
13A	Amount claimed on account of property remaining vacant.
14	Total of columns 8 to 13 and 13A.
15	Net amount to be carried over to the front of the form.

NOTE 5.—(a) Where you keep your accounts on the mercantile accountancy or book profits system, you must file a return in the following form:—

Income, profits or gains from business, trade, commerce.

	Rs.	A.
Income, profits or gains as per Profit and Loss Account for the year ended 19 ..		
Add—Any amount debited in the accounts in respect of—		
1. Reserve for bad debts		
2. Sums carried to reserve for provident or other funds		
3. Expenditure of the nature of charity or presents		
4. Expenditure of the nature of capital		
5. Income-tax or Super-tax		
6. Drawings or salary of proprietor or partners		
7. Rental value of property owned and occupied		
8. Cost of additions to, or alterations, extensions, improvements of, any of the assets of the business.		

Income, profits or gains from business, trade, commerce—contd.

	Rs.	A.
<i>Add</i> —Any amount debited in the accounts in respect of—		
9. Interest on the proprietor's or partner's capital, including interest on reserve or other funds.		
10. Losses sustained in former years		
11. Losses recoverable under an insurance or contract of indemnity.		
12. Depreciation of any of the assets of the business		
13. Private or personal expenses and expenses not incurred solely for the purpose of earning the profits.		
TOTAL		
<i>Deduct</i> —Any profits included in the account already charged to Indian Income-tax and the interest on securities of the Government of India or of local Governments declared to be Income-tax free.		
Balance		

(Signature of the person making the return.)

Dated

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(b) Where you do not keep your accounts in such a form, you must file a statement showing how you arrive at the taxable profits, i.e., showing details of the gross receipts and of the expenditure you propose to set against those receipts. No deductions are permissible on account of—

- (i) Property owned and occupied by the owner of a business for the purposes of a business;
- (ii) Additions to, or alterations, extensions, or improvements of, any of the assets of the business;
- (iii) Interest on the capital of the proprietors or partners of the business;
- (iv) Bad debts not actually written off in the accounts;
- (v) Losses sustained in previous years;
- (vi) Reserves of any kind;
- (vii) Sums paid on account of the income-tax or super-tax or any tax levied by a local authority other than local rates or municipal taxes in respect of the portion of the premises used for the purpose of the business;
- (viii) Any expenditure of the nature of charity or a present;
- (ix) Any expenditure of the nature of capital;
- (x) Any loss recoverable under an insurance or a contract of indemnity;
- (xi) Depreciation of any kind other than that specified in the Act;
- (xii) Drawings or salaries of the proprietors or the partners;
- (xiii) Private or personal expenses of the assessee;
- (xiv) Any expenditure of any kind which is not incurred solely for the purpose of earning the profits.

If you have included any such sums in your expenditure in your books, you must exclude them from the expenditure permissible for the purpose of arriving at your taxable profits.

(c) You are also required to attach a statement showing the sums charged in your accounts under the provisions of section 58K (2).

NOTE 6.—The income, profits or gains shall be computed after making allowance for any expenditure (not being in the nature of capital expendi-

ture) incurred *solely* for the purpose of such profession or vocation, provided that no allowance is made on account of any of your personal expenses. Professional fees received by you in any part of India (whether within British India or not) must be included by you in your receipts.

NOTE 7.—Income-tax chargeable on the profits of companies is paid by the companies, so that the dividends received by shareholders represent the net amount remaining after any income-tax due by the company has been paid. This amount should be entered in column 2 of the statement. The proportionate tax will be added in the Income-tax office.

If the rate of tax applicable to your total income is less than the rate of income-tax applicable to the profits or gains of the company at the time of the declaration of such dividends, you may, by attaching the company's certificate received with the dividends, have the excess collected on your dividends from the company set against the tax payable by you on your other income instead of having to apply separately for a refund.

Where a company derives a part of its profits in British India and part outside British India, such portion of its dividend as is payable out of profits taxable in British India should be shown in Part I under item 7 and the balance in Part II under item 6.

NOTE 8.—Agricultural rates to an authority under income from

(2) In the notes appended to the said statement—

(i) for Note 9 the following Note shall be substituted, namely:—

NOTE 9.—Deduction of insurance premia in respect of a contract of insurance of your wife. No insurance except in connection with a claim for refund is permissible on any male member of a family holding a certificate of the insurance attached to the return

“Note 9. Rebates in respect of insurance premia or of a contract for annuity cannot be allowed in connection with a claim for refund.

They can only be allowed in the course of an assessment”;

NOTE 10.—The provisions on account

(ii) In Note 10 the words and letters “provident fund etc.” shall be omitted.

NOTE 11.—Under this head should be shown interest on securities issued by the Government of India or a local Government or a local authority in India on which interest is paid or payable outside British India, and the interest on debentures of companies operating in India paid or payable outside British India. For this purpose “Company” means “a company as defined in the Indian Companies Act, 1913, or formed in pursuance of an Act of Parliament or of Royal Charter or Letters Patent, or of an Act of the Legislature of a British possession, and includes any foreign association carrying on business in British India whether incorporated or not, and whether its principal place of business is situate in British India or not, which the Central Board of Revenue may, by general or special order, declare to be a company for the purposes of this Act”. Interest on all other securities should be shown under item 7—see Note 16. Interest should be shown gross if foreign tax is deducted therefrom after the assessee receives the interest; if the tax is deducted at source, the net interest received should be shown.

NOTE 12.—See instructions in Note 4.

NOTE 13.—The details should be given as explained in Note 5, but there will be no “deduct” entry on account of profits included in the amount already charged to Indian income-tax and the interest on securities of the Government of India or a local Government in India declared to be income-tax free.

NOTE 14.—This should show professional fees received outside British India.

NOTE 15.—The figure to be shown here is the amount actually received by the shareholder irrespective of whether the dividends are declared free of tax or not.

Where a company derives a part of its profits in British India and part outside British India, such portion of its dividend as is payable out of profits taxable in British India should be shown in Part I under item 7 and the balance in Part II under item 6.

NOTE 16.—This head will include *inter alia* interest on all securities other than those entered in item 2, see Note 11. Interest should be shown gross if foreign tax is deducted therefrom after the assessee receives the interest; if the tax is deducted at source, the net interest received should be shown.

NOTE 17.—Agricultural income from land not included in Part I should be shown under this head.

38. Where the application under rule 36 or rule 36A **P. 92.** is made in respect of interest on securities or dividends from companies, the application shall be accompanied by the certificate prescribed under section 18 (9) or section 20, as the case may be.

39. The application under rule 36 or rule 36A shall be **P. 92.** made as follows:—

- (a) If the applicant is resident in British India, to the Income-tax Officer of the District in which the applicant is chargeable directly to income-tax, or if he is not chargeable directly to income-tax, to the Income-tax Officer of the district in which he ordinarily resides;
- (b) If the applicant is resident outside British India, to the Income-tax Officer appointed by the Central Board of Revenue.

93. 40. An application for refund of income-tax under section 49 of the Act shall be made in the following form :—

Application for relief from double income-tax under section 49 of the Indian Income-tax Act, 1922.

I, _____ of _____, do hereby state that I have paid United Kingdom income-tax and super-tax amounting to £ _____ for the year ending 19 _____ on an income of £ _____ and that Indian ^{income-tax} income-tax and super-tax of Rs. _____ has also been paid on income from the same source amounting to Rs. _____ I have obtained relief under the provisions of section 27 of the English Finance Act, 1920, at the rate of _____ see attached certificate from the Inspector of Taxes I now pray for a further relief at the rate of _____ amounting to Rs. _____ under section 49 of the Indian Income-tax Act, 1922, to which I am entitled. My income from all sources to which this Act applies during the "previous year" ending on the 19 _____ amounted to Rs. _____ only—see Return of income ^{attached} already submitted .

Signature

I hereby declare that what is stated herein is correct.

Signature

Dated

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41. The application under rule 36 or rule 40 may be presented by the applicant in person or through a duly authorized agent or may be sent by post.

42. A return shall be furnished by the principal officer of a Company under section 19A in respect of a dividend or aggregate dividends if the amount thereof exceeds Rs. 10,000.

43. The return by the principal officer of a Company under section 19A shall be in the following form and shall

be delivered to the Income-tax Officer who assesses the Company:—

Return under section 19A of the Indian Income-tax Act, 1922, for the year 1st April 19 . -31st March 19 .

Name of Company

Address of Company

(1) Resident Shareholders

Non-Resident Shareholders

Serial number.	Name of shareholder.	Address of shareholder.	Date of declaration of dividends.	(2) Amount of dividends	
				Net.	Gross.
1	2	3	4	5	6
				Rs.	Rs.

I, _____ the principal officer of the
Company, hereby certify that the above statement contains
a complete list of the $\frac{\text{resident}}{\text{non-resident}}$ shareholders of the Com-
pany to whom a dividend or aggregate dividends exceed-
ing Rs. 10,000 was or were distributed in the period from
the 1st April 19__ to the 31st March 19__.

Dated

19 .

Signature

NOTE 1.—Separate forms should be used for resident and non-resident shareholders.

NOTE 2.—Where dividends are issued "free of income-tax", the figure to be entered in column 5 is the sum actually paid, and the figure to be entered in column 6 is the aggregate of the sum so paid and the amount of income-tax payable by the Company in respect of the dividends.

44. All sums deducted in accordance with sub-sections P. 98. (2) and (3) of section 57 shall be paid by the person making the deduction to the credit of the Government of India

within one week from the date of such deduction by remitting the amount to the Income-tax Officer concerned or to such Government Treasury or branch of the Imperial Bank of India as he may direct. The person making the deduction shall send at the same time to the Income-tax Officer a statement showing the name of the non-resident person on whose behalf the tax has been deducted, the amount of the tax deducted, the gross amount of dividend in respect of which the deduction has been made and the period for which the dividend has been paid.

FINANCE DEPARTMENT (CENTRAL REVENUES).

Notification No. 9, dated the 15th March, 1930.

In exercise of the powers conferred by Chapter IXA of the Indian Income-tax Act, 1922 (XI of 1922), the Governor General in Council is pleased to make the following rules, the same having been previously published as required by sub-section (1) of section 58-L read with sub-section (4) of section 59 of the said Act :—

1. These rules may be called the Indian Income-tax (Provident Funds Relief) Rules.

2. In these rules, "section" means a section of the Indian Income-tax Act, 1922 (XI of 1922).

3. The contributions made by employees after the date of recognition of a provident fund and the interest on the accumulated balances of such contributions shall be wholly invested in securities of the nature specified in clause (a), (b), (c), (d) or (e) of section 20 of the Indian Trusts Act, 1822, and payable both in respect of capital and of interest in British India.

4. (1) Withdrawals by employees shall not be allowed by the trustees except on special grounds in the following circumstances or circumstances of a similar nature—

(a) to pay expenses incurred in connection with the illness of a subscriber or a member of his family;

(b) to pay for the passage over the sea of a subscriber or any member of his family;

(c) to pay expenses in connection with marriages, funerals or ceremonies which by the religion

of the subscriber it is incumbent upon him to perform and in connection with which it is obligatory that expenditure should be incurred;

(d) to meet the expenditure on building or purchasing a house or a site for a house provided that such house or site is assigned to the trustees of the fund;

(e) to pay premia on policies of insurance on the life of the subscriber or of his wife provided that the policy is assigned to the trustees of the fund and that the receipts granted by the insurance company for the premia are from time to time handed over to the trustees for inspection by the Income-tax Officer.

(2) For the purposes of sub-rule (1) "Family" means any of the following persons who reside with and are wholly dependent on the employee, namely:—the employee's wife, legitimate children, step children, parents, sisters and minor brothers.

(3) No such withdrawal shall exceed (1) the pay of the employee for three months; or, in the case of a withdrawal for the purpose specified in clause (d) of sub-rule (1), six months at the time when the advance is granted, or (2) the total of the accumulation of exempted contributions and exempted interest contained in the balance to the credit of the employee whichever is less.

(4) A second withdrawal shall not be permitted until the sum first withdrawn has been fully repaid.

5. (1) Where a withdrawal is allowed for a purpose specified in clause (d) or clause (e) of sub-rule (1) of rule 4 the amount withdrawn need not be repaid.

(2) Where a withdrawal is allowed for any other purpose the amount withdrawn shall be repaid in not more than twenty-four equal monthly instalments and shall bear interest in accordance with rule 6 and no further withdrawal shall be permitted until repayment has been effected in full.

6. In respect of withdrawals which are repaid in not more than 12 monthly instalments, an additional instalment of 4 per cent. of the amount withdrawn shall be paid on account of interest; and in respect of withdrawals which

are repaid in more than 12 monthly instalments two such instalments of 4 per cent. of the amount withdrawn shall be paid on account of interest :

Provided, however, that at the discretion of the Trustees of the Fund, interest may be recovered on the amount withdrawn or the balance thereof outstanding from time to time at 1 per cent. above the rate which is payable for the time being on the balance in the fund at the credit of the member.

7. The employer shall deduct such instalments from the employee's salary, and pay them to the Trustees. The deductions shall commence from the second monthly payment made after the withdrawal or in the case of an employee on leave without pay from the second monthly payment made after his return to duty.

8. In case of default of repayment of instalments under rules 6 and 7, the Commissioner of Income-tax may at his discretion order that the amount of the withdrawal or the amount outstanding shall be added to the total income of the employee for the year in which the default occurs and the Income-tax Officer shall assess the employee accordingly.

9. Notwithstanding anything contained in rules 4 to 8, it shall be open to the trustees of a recognised provident fund to permit the withdrawal of ninety per cent. of the amount standing at the credit of an employee if the employee takes leave preparatory to retirement, provided that if he rejoins duty on the expiry of his leave he shall refund the amount drawn together with interest at the rate allowed by the fund.

9-A. Where the accounts of a recognised provident fund are kept outside British India, certified copies of the accounts shall be supplied not later than the 15th June in each year to a local representative of the employer in British India :

Provided that the Income-tax Officer may in any year appoint a date later than the 15th June as the date by which the certified copies shall be supplied.

10. (1) An application for recognition shall be made by the employer maintaining the fund for which recogni-

tion is sought and shall be accompanied by the following documents:—

- (a) the trust deed if any in original with one copy thereof, the latter to be retained by the Commissioner, and
- (b) the rules of the fund.

Provided that if the original of the trust deed cannot conveniently be produced, it shall be open to the Commissioner of Income-tax to accept in lieu of the original a copy certified either by a Magistrate or in any manner specified in rule 7 of the Indian Companies Rules, 1914, in which case an additional copy shall be furnished for retention by the Commissioner.

(2) The application shall be submitted through the Income-tax Officer of the area in which the accounts of the funds are kept, or, if the accounts are kept outside India, through the Income-tax Officer of the area in which the local headquarters of the employer are situate.

(3) The application shall contain the following information:—

- (a) Name of employer and address, his business, profession, etc., also his principal place of business.
- (b) Number of employees subscribing to the fund—
 - (i) in British India;
 - (ii) in Indian States;
 - (iii) outside India.
- (c) Place where the accounts of the fund are or will be maintained.
- (d) If the fund is already in existence—
 - (i) a copy of the last balance sheet of the fund, where such is maintained,
 - (ii) details of investments of the fund.

(4) A verification in the following form shall be annexed to the application.

Form of Verification.

$\frac{\text{We}}{\text{I}}$ the trustee(s) of the above named fund do declare that what is stated in the above application is true to the

best of our information and belief, and that the documents sent herewith are the originals or true copies thereof.

11. Where an employee of a company owns shares in the company with a voting power exceeding ten per cent. of the whole of such power the sum of the exempted contributions of the employee and employer to the recognised provident fund maintained by the company shall not exceed Rs. 250 in any month.

12. If an employee assigns, or creates a charge upon his beneficial interest in a recognised provident fund, the Income-tax Officer shall, on the fact of the assignment or charge coming to his knowledge, give notice to the employee that if he does not secure the cancellation of the assignment or charge within two months of the date of receipt of the notice the consideration received for such assignment or charge shall be deemed to be income received by him in the year in which the fact became known to the Income-tax Officer and shall be assessed accordingly.

13. If the Commissioner withdraws recognition from a recognised provident fund, the balance to the credit of each employee at the end of the financial year prior to the date of the withdrawal of recognition shall be paid to him free of income-tax and super-tax at the time when such employee receives the accumulated balance due to him. The remainder of the accumulated balance due to him shall be liable to income-tax and super tax as if the fund had never been recognised.

14. Before withdrawing recognition, the Commissioner of Income-tax shall give an opportunity to the employer and the trustees of the fund to show cause why recognition should not be withdrawn.

FINANCE DEPARTMENT (CENTRAL REVENUES).

Notification No. 10, dated the 15th March, 1930.

In pursuance of sub-section (2) of section 58F. of the Indian Income-tax Act, 1922 (XI of 1922), the Governor General in Council is pleased to fix six per cent. as the rate referred to in the said sub-section.

CENTRAL BOARD OF REVENUE.

Notification No. 12, dated the 15th March, 1930.

In exercise of the powers conferred by Chapter IX-A, and by section 59 of the Indian Income-tax Act, 1922 (XI of 1922), the Central Board of Revenue is pleased to make the following rules, the same having been previously published as required by sub-section (1) of section 58L read with sub-section (4) of section 59 of the said Act :—

1. These rules may be called the Indian Income-tax (Provident Funds Relief) (Central Board of Revenue) Rules.

2. In these rules "section" means a section of the Indian Income-tax Act, 1922 (XI of 1922).

3. An order according recognition to a provident fund shall take effect—

(a) in cases where the application for recognition has been received by the Commissioner of Income-tax before the 31st May 1930—on 31st March 1930.

(b) in other cases on the last day of the month in which the order is made, or, at the request of the employer, on the last day of any later month in the same financial year.

4. An appeal under sub-section (5) of section 58-B shall be in the following form and shall be verified in the manner indicated therein :—

Form of appeal against non-recognition of a Provident Fund by a Commissioner of Income-tax.

To

The Central Board of Revenue.

The petition of _____ employer(s)
carrying on business, profession or _____ at

. Your petitioner(s) applied to the Commissioner of Income-tax under section 58-B of the Indian Income-tax Act, 1922, for the recognition of the provident fund maintained by them (him) for the benefit of their (his) employees. The Commissioner of Income-tax has refused recognition for the reasons stated in his order dated _____ of which a copy is attached.

For the reasons set out below your petitioner(s) submit(s) that the fund should be recognised; and pray(s) that the Central Board of Revenue may be pleased to accord recognition.

Grounds of appeal.

$\frac{\text{We}}{\text{I}}$ the petitioner(s) named in the above petition do declare that what is stated therein is true to the best of $\frac{\text{our}}{\text{my}}$ information and belief.

Signature

Address of Appellant.

Date

5. The accounts of a recognised provident fund shall be prepared at intervals of not more than twelve months.

6. An account shall be maintained for each subscriber to the fund in the following form :—

Name.....

Date of joining Fund.

Account closed.

date

Paid to employee

Lapsed to employer or to fund

Recovery by employer.

Year and month.	Salary.	Contributions and Interest.								10 Total interest. Columns 4, 6 and 8.	Exempt.		Not exempt.		15 Additions to total income. (5, 7 and 10.)	16 Remarks.
		3 Contributions by employ- ee.	4 Interest on sums in column 3.	5 Regular contributions by employer.	6 Interest on sums in column 5.	7 Employer's contributions of a contingent nature (in- cluding forfeitures of ex- isting employees' contributions lapsing to the benefit of other employees).	8 Interest on sums in column 7.	9 Total contributions. Columns 3, 5 and 7.	11 Contributions not exceed- ing 1-6th of salary for the year.		12 Interest on sums in column 11 at % p.a.	13 Contributions. Column 9 minus Column 11.	14 Interest. Column 10 minus Column 12.			
1																
BALANCE B. F.																
April																
May																
.....																
March																
A adjustment on account of temporary withdrawals account (Columns 11 and 12 only).		Total	3 and 4.		5 and 6.		7 and 8.			11 and 12.						
Adjustment on account of non-repayable withdraw- als account (Columns 11, 12, 13 and 14).		Total carried over														

N.B.—The totals of Columns 3 and 4, 5 and 6, 7 and 8 and 11 and 12 will be carried into the next year as the opening balance of Columns 3, 5, 7 and 11, respectively.

TEMPORARY WITHDRAWALS ACCOUNT.

NON-REPAYABLE WITHDRAWALS ACCOUNT.

Amount.		Advance.		Repayment.		Interest.	
April		Balance brought forward—					
May		April					
June		May					
July		June					
.....		July					
.....						
.....						
March		March					
Total				Balance carried over			

7. An abstract for the financial year or other applicable accounting period of the individual account of each employee participating in a recognised provident fund shall be furnished by the trustees to the Income-tax Officer of the area in which the employer conducts his business, profession or vocation, or to such other Income-tax Officer as the Commissioner may, in each case, direct, not later than the fifteenth day of June in each year. It shall be in the form prescribed in rule 6, but shall show only the totals of the various columns thereof for the financial year or other accounting period. It shall also give an account of any temporary withdrawals by the employee during the year and of the repayment thereof.

8. The account to be made under the provisions of sub-section (1) of section 58-J. shall show in respect of each employee (i) the total salary paid to the employee during the period of his participation in the provident fund, (ii) the total contributions, (iii) the total interest which has accrued thereon, and (iv), so far as may be, the percentage of the employee's salary in accordance with which contributions have been made by the employer and employee.

CENTRAL BOARD OF REVENUE.

Notification No. 35, dated the 12th July 1930.

In exercise of the powers conferred by sub-section (7) of section 33A of the Indian Income-tax Act, 1922 (XI of 1922), the Central Board of Revenue makes the following rules :—

Rules.

(1) The Commissioner of Income-tax on receipt of an appeal under section 33A of the Indian Income-tax Act, 1922, shall, unless, in pursuance of the proviso to sub-section (3) of that section, the appeal is withdrawn, appoint a Board of Referees consisting of not less than three and not more than five members chosen by him, subject to the provisions of sub-section (6) of that section, from a panel constituted and maintained by the Central Board of Revenue.

(2) Appointments to, and resignations or removals from, the panel shall be published in the Gazette of India.

(3) The names of the members chosen by the Commissioner shall be communicated to the appellant within one week of receipt of the appeal in the Commissioner's office or of the decision of the Commissioner under section 33, as the case may be.

(4) Within a period of 15 days from the receipt of the communication, the appellant may object, without giving any reasons, to the inclusion of any name or names in the Board, and submit the names of not less than five members of the panel to whom he will not object.

(5) In the event of an objection to any name, the Commissioner shall substitute a fresh name therefor, but shall not be bound to accept a name submitted by the appellant, and shall communicate it forthwith to the appellant.

(6) The appellant may not subsequently object to the inclusion in the Board of any name submitted by himself.

(7) The appellant shall be allowed one further period of fifteen days in which to object to names not originally included by the Commissioner nor submitted by himself.

(8) If the appellant has twice objected to the constitution of the Board proposed by the Commissioner, the Central Board of Revenue shall settle the composition of the Board and the decision of the Central Board of Revenue shall be final.

(9) The time and place of the first meeting of the Board shall be fixed by the Commissioner after consulting the members. The time and place of subsequent meetings shall be fixed by the Board and announced to the appellant and the Commissioner.

(10) The members of the Board shall elect their own Chairman.

(11) The decision of the Board shall be the decision of the majority of members present. All the members present shall sign the report, and any member who differs from the others may record a dissenting minute. Should there be an equality of votes, the Chairman shall have a casting vote. No decision of the Board which is signed by less than half the members shall be valid. The proceedings of the Board shall not be invalidated merely by reason of the absence of a member or his failure to sign the report of the Board.

PART III.

NOTES AND INSTRUCTIONS REGARDING THE INCOME- TAX LAW AND RULES.

NOTES AND INSTRUCTIONS REGARDING THE INCOME-TAX LAW AND RULES.

1. *Extent of the Act.* [Section 1 (2).]—This sub-section governs the whole of the Act and defines the areas to which the Act applies. Section 7 (2) on the other hand governs merely the taxation of particular classes of income.

The words "and to all other servants of His Majesty in those dominions" were added in the Act of 1918 as it was considered advisable to abandon the previous limitation, in the case of persons serving outside British India, of liability to British subjects, since it not infrequently happens that subjects of Indian States are taken into Government employment and sent to serve in places outside British India.

The words "including British Baluchistan" were inserted in the Act of 1922. Prior to the passing of that Act, the Income-tax Act was applied to British Baluchistan by notification in a restricted form, income-tax being, under the notification, leviable only upon salaries received by persons in the service of, and paid by or on behalf of, Government or of a local authority established in the exercise of the powers of the Governor-General in Council. The Act now applies in full force to the whole of British Baluchistan.

The whole of the Act, with the exception of sections 7 (2) and 64, has been applied to the Civil and Military Station, Bangalore, and the District of Abu, while to Berar the whole Act except section 7 (2) has been applied. Only so much of the Act has been applied to the Cantonment of Baroda, the British administered areas in Central India and the British administered areas (excluding Railway lands) in the Bombay Presidency, as relates to the assessment and collection of income-tax on salaries of Government servants or of local authorities established in the exercise of the powers of the Governor-General in Council.

The Civil and Military Station of Bangalore, Berar and the District of Abu are distinct from British India and, strictly speaking, all profits accruing or arising or received in British India or deemed to accrue or arise or to be received in British India are liable to tax even if they have already been taxed in those areas. Similarly, all profits accruing or arising or received in any of those areas or deemed to accrue or arise or to be received in those areas are liable to tax even if they have already been taxed in British India. Berar is practically treated as part of British India for purposes of assessment and no question of double taxation arises. When the same profits are taxed both in British India and in the Civil and Military Station of Bangalore, a deduction or refund is given in British India equal to the tax levied on such profits in the Civil and Military Station if the headquarters of the firm or company, etc., are in British India, and a similar refund or deduction is given at Bangalore if the headquarters of the firm or company

are at Bangalore. The whole of the Act has also been applied to Angul, but under a notification issued under section 60 of the Act, the income of persons in that District other than persons in the service of Government has been exempted from liability to the tax—see paragraph 17 (35).

Under the sub-section—

(a) the Act applies in Indian States to all persons in the service of Government, whatever their nationality. It applies in Indian States to persons in the service of a local authority established in the exercise of the powers of the Governor General in Council, only if they are British subjects or servants of Government lent to the local authority;

(b) the salaries of Government officers serving outside India are not liable to income-tax unless they are drawn or otherwise received in India.

(c) Frontier Agency tracts and ceded areas are included in the term “dominions of Princes and Chiefs in India in alliance with His Majesty”.

2. *Definition of “agricultural income”.* [Section 2 (1).]—Agricultural income is exempted from tax under the provisions of section 4 (3) (viii) of the Act and any income to be exempted must fall within the words of this definition. The definition was amended in the Act of 1922 in order to make it clear that rent or revenue derived from land used for agricultural purposes [clause (a)] is exempt from tax only in cases where the land is assessed to land revenue by an authority in British India or is subject to a local rate assessed and collected by an authority in British India, and that the exemption does not apply to cases where the land pays revenue or local rate to authorities outside British India. Clauses (b) and (c) were also amended at the same time in order to make it clear that the limitations in clause (a) apply also to the incomes specified in clauses (b) and (c), so that income derived from agriculture will only be exempt if the agriculture is in respect of land on which land revenue or local rate is paid to an authority in British India.

A further amendment was also made by the Act of 1922 in clause (b) (iii). Under the previous Acts profits from the sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him were included under “agricultural income” only in cases where the cultivator or receiver of rent-in-kind did not keep a shop or stall for the sale of such produce. Under the present Act profits derived by a cultivator from the sale of the produce raised by him are included in the term “agricultural income” where the produce is sold in its raw state, that is, if no process has been performed in respect of the produce other than a process of the nature described in sub-clause (ii). The tax therefore is now not leviable on the profits derived by a cultivator or receiver of rent-in-kind from the sale of the *raw* produce raised or received by him even if he keeps a shop for the retail vend of such raw produce.

If a land-owner grows on his own land which is assessed to land revenue forests or trees and derives income therefrom, he is not liable to income-tax on such income. Persons, however, who take contracts in forests for the cutting down and selling of timber are liable to tax on the profits from such transactions.

Assignment of land revenue to a Jagirdar is not assessable to income-tax in the hands of the Jagirdar.

Interest on arrears of rent of land used for agricultural purposes is part of the rent derived from the land and is therefore not liable to income-tax, subject to the exception that if the arrears are secured by a bond and are therefore recoverable by civil suit such interest is taxable.

Rule 23 prescribes the manner in which profits and gains shall be arrived at in the case of incomes derived in part from agriculture and in part from business, and provides for the separation of industrial from agricultural profits in cases where the agricultural *raw* produce is worked up for the market. Assessing authorities should determine what portion of profits derived in part from industry and in part from agriculture should be regarded as derived from industry and agriculture respectively taking into account the circumstances of each case.

In the case of tea, where the person growing, manufacturing and selling tea has separate purely agricultural income (*e.g.*, from rent or cultivation of land on which tea is not grown) no account shall be taken of such income in calculating the profits liable to tax. Some concerns again are engaged in the growing of tea seed. Where the tea seed is produced for the use of the assessee, it must, of course, be included in the profits. No tax should, however, be levied on the profits derived from the growing of tea seed in cases where the tea seed is sold to a third party and where separate accounts are maintained for the expenditure and receipts for the growing of the seed. Although under section 10 (2) (ix) of the Act the only expenditure that can be allowed to be set against profits is expenditure incurred solely for the purpose of earning the profits or gains taxable in any year, it will only be fair in the case of tea concerns to allow as a charge against profits the whole of the cost of the upkeep (*e.g.*, weeding and draining) of extensions of the estate which are not in bearing. No allowance can be made on account of any capital expenditure in connection with such extensions, such as the acquisition, clearing and draining of the land, the making of roads or the erection of buildings before the cultivation begins, but when once the cultivation has begun with the completion of the planting, the annual cost of the upkeep of such extensions should be allowed as a business extension even although the expense is not in bearing.

The following principle should be adopted in calculating the net dividends and regulating refunds on dividends, paid from profits that are only partly taxed in the hands of the company, *e.g.*, companies a part of whose income arises or accrues outside British

India and is not received in British India or part of whose income is derived from tax-free securities:—

If x per cent. of the profits pay tax in the hands of the company, the total income of the shareholder for the purpose of refunds is x per cent. of the net dividend multiplied by $32/29$ taking the maximum rate of income-tax as 1 anna and 6 pies. That part of the profits of the company which is not taxed in its hands will, of course, be taxable in the hands of the shareholder under Section 14 (2) (a) if the income is liable to tax under Section 4 (1) and is not exempt under Section 4 (3) or under one of the notifications issued under Section 60. But no addition on account of income-tax should be made to the part of the dividends not taxed in the hands of the company in computing the shareholder's total income.

Illegal *abwabs* are taxable since they do not come within the definition of "agricultural income". So also are the following items, *viz*:—(a) fees received from land used for storing purchase of crops (*Paiali*), (b) *punyaha nazar* or *nazar* paid by tenants of agricultural holdings at the beginning of the *zemindari* year, (c) *nazar* for petitions presented to the *zemindars* dealing with questions of successions, settlement and partition (Raja Probhat Chandra Barua *versus* King Emperor, High Court of Bengal Reference No. 1 of 1926 (II, Srinivasan Tax Cases, page 392) and Privy Council Appeal in the same case). On the other hand, the ruling in the Bengal High Court Case No. 40 of 1920, Birendra Kishor Manikya *versus* Secretary of State for India (I, Srinivasan Tax Cases, page 67), in which it was held that though the premium paid for the settlement of waste lands or abandoned holdings might reasonably be regarded as "rent or revenue" derived from land, as used in this definition, the same considerations did not apply to the *salami* or premium paid to a land-holder for recognition of a transfer of a holding from one tenant to another, has been overruled, in respect of the *salami* in question, by a Full Bench of the High Court of Bengal in Reference No. 1 of 1925, Nawabzadi Mehar Bano Khanum *versus* Commissioner of Income-tax, Bengal (II, Srinivasan Tax Cases, page 99); this Full Bench decision was followed by the Patna High Court in Case No. 47 of 1926, Maharajadhiraj of Darbhanga *versus* Commissioner of Income-tax, B. & O., (III, Srinivasan Tax Cases, page 158) and again maintained (by way of *obiter dictum*) in the High Court's subsidiary decision in the Reference case, already quoted, of Raja Probhat Chandra Barua.

The main judgment in that Reference (which was upheld by the Privy Council) dealt, not with the question of what is exempt *under the Act* as agricultural income but with the question whether non-agricultural income from permanently settled land is exempt *under the Settlement*, and answered that question in the negative.

Again in the Patna High Court Case No. 74 of 1919, in the matter of Bhikanpur Sugar Concern (I, Srinivasan Tax Cases,

in the case of firms. All firms whether registered or unregistered (see paragraph 10) are liable to pay income-tax but while unregistered firms are liable to pay super-tax, registered firms are not. The income of registered firms is liable to super-tax in the hands of the individual partners of the registered firm. Co-operative Societies, Clubs (not being companies) and Chambers of Commerce are examples of "association of individuals."

Private provident funds of companies and firms should not be assessed to income-tax as "other associations of individuals," otherwise than by deduction at the source upon their income from investments and should not be charged to super-tax at all. They are also eligible for refund of tax under Section 48 if they comply with the provisions of that section.

4. *Definition of "company."* [Section 2 (6).]—This definition includes all companies constituted in the Dominions of the Crown, while the latter part of the definition is confined to such foreign associations as the Central Board of Revenue may desire to treat as companies for the purposes of the Act. The object of this latter part is to include associations such as the *French Sociétés Anonymes* which, though incorporate bodies, have many characteristics in common with the companies recognised by our law, if the Central Board of Revenue thinks that they should be treated as companies for the purposes of the Act.

5. *Trading operations of Indian States and Dominion Governments.*—Any trade or business in British India carried on by the Governments of Indian States or of any part of the British Empire, other than the Government of India or a Local Government, and the property occupied and goods owned in British India for the purpose of such business are, under the provisions of the Government Trading Taxation Act (III of 1926), liable to taxation under the Indian Income-tax Act in the same manner and to the same extent as in a like case a company would be. Before attempting to assess the income of such Government, the Income-tax Officer should serve a notice under section 2 (12) (b) of the Indian Income-tax Act upon some representative of the said Government in British India declaring his intention of treating such representative as the principal officer of such Government.

6. *Definition of "previous year."* [Section 2 (11).]—Under section 3 of the Act, assessable income is to be computed with reference to a fixed period which is known as the "previous year." This fixed accounting period, the income, profits and gains of which alone are taken into consideration in making an assessment, is treated as isolated, without any consideration of what went before or what came after. The definition of the phrase "previous year" in the Act of 1918 restricted the accounting period to a period of 12 calendar months. The period of 12 calendar months was the period ending on the 31st day of March next preceding the year for which the assessment was to be made, but the assessee was given an option of adopting a year of 12 calendar months ending on a date other than the 31st of March if that was the date up to which

his accounts were made up. This gave rise to difficulties in the case of certain communities, whose commercial year is not necessarily a calendar year, but is a period which, expressed in calendar months, varies from year to year, and in one year may be slightly over and in another slightly under 12 months. Again, under the definition in the Act of 1918, any year which was adopted in place of the financial year had to terminate at some period within the previous financial year, and as there are numerous cases where the commercial year terminates in the month of April, the returns and accounts on which the assessment was based in such cases related to a period more than 12 months prior to the date of assessment. While the definition of the phrase in the Act of 1918 has been repeated practically without alteration in clause (a) of this sub-section, clause (b) is a new provision providing for the difficulties referred to above. Under this clause the Central Board of Revenue or the Commissioner of Income-tax in a province, if authorised by the Central Board of Revenue, may determine as the "previous year" a commercial year which may be slightly over or slightly under 12 months, and which may terminate on a date subsequent to the end of the previous financial year. The Central Board of Revenue has authorised the Commissioner of Income-tax in each province to determine as the "previous year" in the case of any person, business or company, or class of persons, business or company.

(a) a commercial year which may consist of more or less than 12 months, provided that no commercial year which may extend to less than 11 or more than 13 calendar months in any one year shall be so determined; and

(b) a commercial year terminating after the end of the previous financial year, provided that no commercial year terminating later than one month after the end of the previous financial year, shall be so determined.

Where the Commissioner desires that a "previous year" should be recognised which does not come within his powers of sanction as stated above, he must obtain the orders of the Central Board of Revenue.

Income-tax Officers are, therefore, debarred from treating as a "previous year" any period which does not come within the definition in clause (a) unless such "previous year" has been sanctioned either by the Income-tax Commissioner or the Central Board of Revenue.

Under the proviso to clause (a) an assessee who has, after the 31st March 1922, once exercised the option of selecting as his "previous year" a year terminating on a date other than the 31st day of March within the previous financial year, may not again exercise that option except with the consent of the Income-tax Officer, and upon such conditions as he may think fit. Income-tax Officers in dealing with such cases, and Commissioners in dealing with cases under sub-clause (b), should take steps to secure that the changing over from one previous year to another shall not

result in any loss of revenue. The convenience of an assessee in this matter must be studied so far as possible, as it is desirable that the accounting period for income-tax purposes should be the same as the accounting period according to which an assessee makes up his accounts for the purposes of his business, but in the actual year of change conditions should be laid down sufficient to secure that the substitution of one year for another shall not result in any profits of an assessee escaping assessment.

If an assessee closes his accounts on different dates for different businesses or different sections of the same business, or different sources of income his income should be calculated separately for each business, section of business or source, according to the accounting year adopted for it and the aggregate of the incomes thus computed should be treated as the income of the previous year. Each of the years of which the income is thus added together must, of course, satisfy the definition of 'previous year' in Section 2 (11) of the Act with reference to the same year of assessment.

If an assessee for some special reason closes his accounts on a particular occasion on a date different from—usually later than—that which he usually adopts, ordinarily proportionate profits of 12 months out of the (say) 14 or 15 months for which the accounts are closed should be taken for the current assessment, and the balance of profits for the remaining 2 or 3 months should be left over to be included in the next year's assessment. In special cases, when the Income-tax Officer has reason to believe that the temporary extension of the accounting period has been resorted to by the assessee with some ulterior motive, he may use the discretion given to him by the proviso to section 13 of the Act.

7. Definition of "Principal Officer." [Section 2 (12).]—Income-tax Officers should treat as the "Principal Officer" of a local authority or company or other public body or association in the first instance the officials specified in clause (a); it is only in cases where the Income-tax Officer has no information regarding the persons who discharge the functions of the officers mentioned in clause (a) or where such persons cannot be found, that he should use the powers conferred by clause (b) of treating as the principal officer any other person connected with the company, public body or association.

8. Meaning of the term "local authority."—"Local authority," a phrase used in sections 2 (12); 4 (3) (iii), 7 and 21, is defined in section 3 (28) of the General Clauses Act as

"a municipal committee, district board, body of port commissioners or other authority legally entitled to, or entrusted by the Government with the control or management of, a municipal or local fund."

9. Definition of "public servant." [Section 2 (13).]—This definition is of importance for the purposes of section 54 of the Act. The definition of the phrase in the Indian Penal Code contains the following:—

"The words 'public servant' denote a person falling under any of the descriptions hereinafter following, namely:—

Ninth.—Every officer whose duty it is, as such officer, to take, receive, keep, or expend any property on behalf of Government, or to make any sur-

vey, assessment or contract on behalf of Government, or to execute any revenue-process, or to investigate, or to report on any matter affecting the pecuniary interests of Government, or to make, authenticate or keep any document relating to the pecuniary interests of Government, or to prevent the infraction of any law for the protection of the pecuniary interests of Government, and every officer in the service or pay of Government or remunerated by fees or commission for the performance of any public duty;

Tenth.—Every officer whose duty it is, as such officer, to take, receive, keep or expend any property, to make any survey or assessment, or to levy any rate or tax for any secular common purpose of any village, town or district, or to make, authenticate or keep any document for the ascertaining of the rights of the people of any village, town or district.

Explanation 1.—Persons falling under any of the above descriptions are public servants, whether appointed by the Government or not.

Explanation 2.—Wherever the words ‘public servant’ occur, they shall be understood of every person who is in actual possession of the situation of a public servant, whatever legal defect there may be in his right to hold that situation.

10. Registered and Unregistered Firms [Sections 2 (14) and (16) 14 (2) (b) and 26A.]—Rules 2 to 6 prescribe the method of registering a firm. A firm to be registered must be constituted under an instrument of partnership which definitely specifies the individual shares of the partners in the profits of the firm. The deed of partnership to be registered both for purposes of assessment to income-tax and super-tax is that in force in the year in which the assessment is made. An application for registration may be made at any time before the assessment of the income of the firm is made but it is desirable that the application should accompany the return under section 22 (2) of the Act. If an application is made after the assessment of the firm, it should be returned to the person presenting it as out of time. Even if such an application is accepted it can have no effect on the assessment for that year, *vide* decision in the Allahabad High Court Case No. 223 of 1923, in the matter of Lallamal Hardeo Dass Cotton Spinning Mill Company of Hathras (I, Srinivasan Tan Cases, page 266). The distinction between a registered and unregistered firm for the purposes of this Act is:—

(1) *Income-tax* is assessed upon the profits of a *registered* firm at the maximum rate whatever the amount of the profits of the registered firm may be (see Finance Act); and a member of such a registered firm, on satisfying the Income-tax Officer that such maximum rate is higher than the rate applicable to his “total income,” may get a refund on his share of those profits calculated at the difference between the two rates [see section 43 (2)], such share of the profits being included in the “total income” of such member for the purpose of determining the rate applicable [see section 16 (1)]. In the case of an *unregistered* firm *income-tax* is levied on the income of the firm at a rate graded according to the profits of the firm as if it were an individual (see Finance Act); a member of such a firm is not entitled to any refund, but his share of the profits of the firm is included in his “total income” for the purpose of determining the rate at which he shall pay income-tax on any other income [see section 16 (1)].

The profits of a *registered* firm are liable to tax at the maximum rate even if they are less than Rs. 2,000, while an *unregistered* firm is not liable to income-tax if its profits in any one year are less than Rs. 2,000. But where the profits of an unregistered firm are not assessed to income-tax, they are liable to tax in the hands of the individual members of the firm, that is, they are included in the assessable income of the individual member [see Finance Act and section 14 (2) (b)];

(2) A *registered* firm is not liable to *super-tax*, the share of individual members in the profits of such a firm being included in the income of each individual member for the purposes of super-tax. An *unregistered* firm is, however, liable to super-tax (like an individual) on that amount of the profits of the firm which is in excess of Rs. 50,000 (see Finance Act and section 55 of the Income-tax Act). Super-tax is not payable by an individual having a share in an unregistered firm in respect of the profits of the unregistered firm, except, in cases where the profits of the unregistered firm have not been assessed to super-tax (see section 55 proviso).

II. *Definition of "total income"*. [Section 2 (15).]—The phrase "total income" is used in sections 3, 15 (3), 16 (1), 17, 22 (1) and (2), 23 (1) and (3), 48, 55 and 56. The necessity for the definition and for the use of the phrase is due to the fact that, as stated in paragraph 3, tax is payable not only by individuals but also by firms, companies, Hindu undivided families and other associations of individuals; that is the Act provides for taxation at the source in certain cases and for taxation in the hands of the individual recipient in others. Whether, however, tax is deducted at the source or in the hands of the individual recipient, it is the total income of the individual recipient from all sources to which the Act applies that determines his liability to income-tax (that is, whether his total income amounts to Rs. 2,000), and the rate at which he has to pay income-tax on the whole of his income. The solitary exception is in the case of Hindu undivided families, income from which [under section 14 (1) read with section 16 (1) of the Act] is not included in the total income of the individual recipient. Again, there are certain classes or portions of income such as the amounts deducted from salaries under the proviso to section 7 (1), contributions to a recognised provident fund exempt under section 58-F (1), the sums paid on account of insurance premia under section 15, securities issued income-tax free by the Government of India or by local Governments under the provisos to section 8, on which income-tax is not payable, but all such sums are included in the total income of the assessee for the purpose of determining his liability to income-tax and the appropriate rate at which the tax shall be levied. There is, however, no taxation at the source in the case of super-tax, nor are there any portions of income (other than income derived from a Hindu undivided family by a member or from an unregistered firm in the special case mentioned in the proviso to section 55) which are exempted from payment of

super-tax and it is upon the total income that super-tax is chargeable in the hands of the individual.

12. Graduation of income-tax. (*Section 3.*)—The Income-tax Act deals merely with the basis, the methods and the machinery of assessment, and does not contain, as the previous Acts did, schedules specifying the rates at which income-tax shall be charged. These rates are determined by the Finance Act which is passed annually by the Central Legislature. The rates prescribed by the current Finance Act will be found at the end of Part I of this Manual. The same remarks apply to super-tax (see section 55 of the Act).

13. Definition of "Income". (*Section 3.*)—Section 3 of the Act of 1918 provided that the Act should apply to "income". Difficulties were experienced in regard to the assessment of business profits owing to a High Court ruling that the word "income" in that section meant income actually or constructively received and that the use of the word in that sense in the said section restricted and limited any interpretation to be placed upon the following sections of the Act which specified the different classes of income liable to the tax. This interpretation would, if strictly followed, have caused considerable inconvenience in assessing business profits to those assesseees who keep their accounts not on the basis of sums actually received and sums actually paid out but on the principles of mercantile accountancy, by the preparation of a profit and loss account and the comparison of the value of the stock in hand at the beginning and at end of each year, since such assesseees would have been required to recast the whole of their accounts on a cash basis for income-tax returns. There were other directions also in which so strict an adherence to the interpretation placed on the word "income" would have caused difficulties. For this reason the phraseology in section 3 and in other sections of the present Act has been re-worded. The plan adopted has been not to attempt a general covering definition of "income", but to prescribe that the tax shall be chargeable not upon "income" (whether "income" be deemed to mean actual receipts and expenditure or any other general definition) but in respect of "all income, profits or gains" as set out and defined in section 4 and sections 6 to 12 of the Act. If there is any class of income that does not fall within the words that impose the charge in those sections, that class of income is not within the scope of the tax.

For the method of accounting to be adopted in computing "income, profits or gains." see paragraph 37.

14. Accounting period to be adopted for determining assessable income. (*Section 3.*)—Under the Act of 1918 tax at the rates fixed for any year was levied on the income of that year. A provisional assessment was first made on the income of the preceding year and this assessment was subsequently adjusted and corrected when the income of the year in which the provisional assessment was made was ascertained. This system has now been abolished in the present Act which provides for the tax at the rates sanctioned for any year being assessed finally on the income, profits and gains

of the "previous year" (see paragraph 6) and for the abolition of the adjustment system except in the cases specially provided for in section 25. The exceptions to the general rule that assessments are made finally on the profits of the previous year are contained in this section. Under the first two sub-sections of section 25, in order to guard against a possible loss of revenue owing to delay in making assessments on the profits of businesses that close down during the course of a financial or commercial year, it is provided that in such cases, in addition to the assessment on the income of the previous year, a further assessment may be made in the year in which a business, profession or vocation is closed down on the income of that year. This is merely a discretionary and not an obligatory method of assessment to be adopted in exceptional cases where delay in making the assessment might lead to a loss of revenue.

The other class of cases provided for in sub-section (3) of section 25 is confined to those particular businesses, professions or vocations on which tax had been charged under the provisions of the Act of 1918. Since the abolition of the adjustment system meant that in the case of those particular business the tax would, had no special provision been made, have to be paid on the profits of one year more than under the system in force under the Act of 1918, it is specially provided that in the year in which such businesses, professions or vocations close down, the adjustment provided for in the Act of 1918 shall be made.

15. *When income earned outside British India is taxable.* [Section 4 (1).]—The Act applies to all income from whatever source it is derived if it accrues or arises or is received in British India, or is, under the provisions of the Act, deemed to accrue or arise or to be received in British India. The tax is, therefore, payable on all income arising or accruing in British India whether the recipient resides in British India or not [see Madras High Court Case No. 4 of 1921, Chief Commissioner of Income-tax, Madras, *versus* Bhanjee Ramjee & Company (I, Srinivasan Tax Cases, page 147)]. The tax is also payable in respect of income received in British India irrespective of whether it accrued or arose within or without British India. Tax is also payable in respect of income which is "deemed under the provisions of this Act to accrue or arise or to be received in British India." The particular cases where income is "deemed under the Act to accrue or arise or to be received in British India" are specified in section 4 (2), section 7 (2), section 11 (3), and section 42.

Section 4 (2) was inserted in the present Act owing to the tax having previously been evaded in the case of income accruing or arising out of British India and received in British India by bringing in the said income at intervals and claiming that as such income was not received in British India in the year in which it arose or accrued out of British India, it was, when brought into British

India, not income but accumulated profits or savings or capital. The sub-section is restricted in its application to the case of *business profits or gains* and provides with respect to such profits or gains that they shall be deemed to be profits and gains of the year in which they are received or brought into British India notwithstanding that they did not accrue or arise in that year, provided that they are so received or brought in within three years of the end of the year in which they accrued or arose. The provision relates, of course, merely to income, profits or gains, and not to the importation of capital; it provides for the inclusion in the assessable income, profits or gains of the year in which it was received or brought into British India, of business profits or gains accruing or arising within the previous three years which would, apart from the provisions of this sub-section, have been taxable had they been brought into British India in the year in which they arose or accrued.

A person resident in British India carrying on and controlling a business abroad is not, therefore, liable to tax on the profits of the business abroad unless and until such profits are received or brought by him into British India, and when so brought or received he is only liable to tax on the profits of the last three years, but the profits of those three years are included in his taxable income of the year of receipt.

A money-lender resident in an Indian State who advances loans in an Indian State to persons residing in British India and who receives his interest in the State is not liable to pay income-tax on the interest which he receives.

In the Madras High Court Case No. 4 of 1919, Board of Revenue, Madras, *versus* Ramanadhan Chetty (I, Srinivasan Tax Cases, page 37), it has been held that profits derived from business carried on outside British India by persons resident in British India are not liable to assessment under the Act if the profits are not remitted to British India. The assessee in this case who resided in British India was a proprietor of a money-lending business carried on by his agents in various places outside British India. The only part taken by the proprietor in the business was to acquaint himself with the state of business abroad and occasionally to issue general instructions, and it was not disputed that none of the income accruing abroad had ever been transmitted to him in India.

In the Bengal High Court Case No. 56 of 1921, Bengal Nagpur Railway Company, Ltd., *versus* Secretary of State for India (I, Srinivasan Tax Cases, page 178), it has been held that the Bengal Nagpur Railway Company is not liable to pay tax on the interest guaranteed by the Secretary of State. This ruling should be followed in the case of all Railway companies where the interest is guaranteed by the Secretary of State and is paid in England only. It does not apply to cases where the interest is guaranteed by an authority other than the Secretary of State or is paid in India.

For the special case of tax on interest on sterling securities see paragraph 16.

16. *Is interest on the sterling securities of the Government of India or on the sterling securities issued by English companies carrying on business in British India liable to Indian income-tax?*—Where such interest is received by the debenture or security holder in British India, it is clearly liable to Indian income-tax under section 4 (1); where, however, it is not received in British India, the tax will only be payable under the terms of the same section if the interest can be held to accrue or arise there. “Accrue or arise” as used in this connection are general words descriptive of a right to receive, and in this view the relevant portion of section 4 (1) of the Act may be paraphrased by stating that the income to which the Act applies is income received in British India or income which there is a right to receive in British India. If this test is applied, interest on the sterling securities of the Government of India, if not received in British India, will not be chargeable with Indian income-tax; and similarly the interest on sterling debentures issued by companies will not be chargeable if, as is usually the case, there is a right to receive it in England. For the purpose of the test it is immaterial in what currency the security or loan and its interest is expressed, and consequently the same principle is also applicable in determining the liability to Indian income-tax of the interest on foreign (other than sterling) debentures. On the other hand, interest on promissory notes of the Government of India enfaced for payment in England is liable to Indian income-tax, since here the right to receive payment of interest is a right to receive it in India, and the concession by which Government paper can be enfaced for payment of interest in London does not constitute any part of the actual contract entered into by Government.

17. *Exemptions—Incomes excluded from “total income”.*—In addition to the exemptions mentioned in section 4 (3), the following further exemptions have been made by the Governor General in Council in exercise of the powers conferred by section 60 of the Act.

“The following classes of income shall be exempt from the tax payable under the said Act and they shall not be taken into account in determining the total income of an assessee for the purposes of the said Act:—

(1) The official allowance which an agent of a Prince or State in India, who has been duly accredited to represent the Prince or State for political purposes in any place within the limits of British India, receives as such agent in British India from the Prince or State; and the official salaries and fees which a consul of a foreign State, whether ‘de carriér’ or not, and whether a British or a foreign subject, or a representative or consular employee of a foreign State, not being a British subject, receives in India from such foreign State in his capacity of consul, representative or consular employee.

(The latter portion of this exemption applies only to salaries and fees received from their Governments and not to any other income, profits or gains, accruing or arising to them or received by them in British India.)

(1-A) Sums paid in pursuance of Article 3 of the agreement dated the 17th August 1825 between the British Government and the King of Oudh.

(1-B) Income derived from the *Bua* tax defined in clause (c) of section 2 of the Teri Dues Regulation, 1902.

(2) The salary and allowances paid by a State in India during the period of deputation to any person deputed by the State for training in British India.

(3) Scholarships granted to meet the cost of education.

(4) Such portion of the income of a member of His Majesty's Naval, Military or Air Forces, British or Indian, or of the Royal Indian Marine as is compulsorily deducted from his salary by the orders, or with the approval of Government for payment to a mess, wine or band fund.

(5) The allowances attached to—

The Victoria Cross.

The Military Cross.

The Order of British India.

The Indian Order of Merit.

(5-A) The interest on Government securities held by, or on behalf of, Ruling Chiefs and Princes of India as their private property.

(6) 'Jangi Inams' awarded to Indian officers, Indian other ranks and followers in respect of services in the Great War.

(7) The yield of Post Office cash certificates. ✓

(8) The interest on deposits in the Post Office Savings Bank. "

(9) The income of a University or other educational institution existing solely for educational purposes and not for purposes of profit.

(10) The salary of His Majesty's Trade Commissioners in India.

(11) The salary of the Canadian Trade Commissioner in India at Calcutta.

(12) The salary of the Trade Commissioner in India of the United States of America, and of any members of his staff who are citizens of the U. S. A. and have been detailed for duty with the said Trade Commissioner by the Government of the said States.

(13) The salaries of the correspondent of the International Labour Office, New Delhi, and his staff.

(14) The gratuities which are granted to officers and others in respect of wounds or injuries received either in action or in the

performance of duty otherwise than in action in His Majesty's Naval, Military or Air Forces, British or Indian, or in the Auxiliary Force, India, or in the Indian Territorial Force or in the Royal Indian Marine.

(15) The gratuities which are granted to the widows, children or other relatives of officers and others who are killed in action or suffer violent death due directly or wholly to war service, or are killed or die of injuries sustained on flying duty or while being carried on duty in air craft under proper authority or die within seven years from wounds or injuries so received.

(16) Retiring gratuities with increments thereto granted under the rules framed by the Secretary of State in Council in pursuance of the Royal Warrant, dated the 25th April 1922.

(17) Gratuities sanctioned under Army Instruction (India), No. 223, dated the 21st March, 1922, for regular Royal Engineer Officers on the Indian establishment belonging to the Survey or Railway Department and regular Indian Army Officers of the Survey Department.

(18) Gratuities granted to Assistant Surgeons of the Indian Medical Department in Military employment declared surplus to establishment under Army Instruction (India), No. 516 of 1924.

(19) Gratuities which are granted by the Railway Board or under general orders issued by the Railway Board to employés on their retirement or discharge from service or, in the event of their death while in service, to their widows or children or other members of their families.

(20) Extraordinary gratuities which are granted by Government or by Railway Administrations to Government or railway servants (or to their widows, children or other representatives, as the case may be) who are injured or killed in the execution of their duties or who suffer injury or death owing to devotion to duty.

(20-A) Gratuities granted to the staff of the Indo-European Telegraph Department in pursuance of the Resolution of the Secretary of State for India in Council dated the 24th June, 1930.

(20-B) Gratuities granted under paragraph 6 of Army Instruction (India), No. 101, dated the 9th September, 1930.

(21) The allowance or salary paid in the United Kingdom to officers of Government on leave or duty in that country whether such allowance or salary is paid in sterling in the United Kingdom or by means of negotiable rupee drafts on a bank in India.

(22) The leave allowance or salary drawn from any Colonial Treasury by officers of Government on leave or duty in the Colony.

(23) Leave salaries or leave allowances paid in the United Kingdom or in a Colony, to officers of local authorities, or to the employés of Companies, or of private employers on leave in the United Kingdom or in such Colony.

(24) Vacation salaries paid in the United Kingdom or in a Colony to Judges of High Courts or of Chief Courts, to Judicial

Commissioners, or to other officers of Government, when on vacation therein.

(25) The pensions of officers of Government residing out of India drawn from any Colonial Treasury or paid in the United Kingdom, whether such pensions are paid in sterling or by means of negotiable rupee drafts on a bank in India.

(26) The salaries of the light house keepers of light houses in the Red Sea.

(27) The pensions paid in the United Kingdom or in a Colony to officers of local authorities or employes of companies or of private employers, such officers or employes being resident out of India.

(28) The interest on Mysore Durbar Securities.

(29) Pensions granted to officers of His Majesty's Naval, Military or Air Forces, British or Indian, or of the Auxiliary Force, India, or of the Indian Territorial Force, or of the Royal Indian Marine in respect of wounds or injuries received in action or in the performance of their duties as members of such forces otherwise than in action.

(30) Pensions granted to members of His Majesty's Naval, Military or Air Forces, British or Indian, or of the Auxiliary Force, India, or of the Indian Territorial Force, or of the Royal Indian Marine, who have been invalided from service with such forces on account of bodily disability attributable to, or aggravated by, such service.

(31) Value of rations issued in kind or money allowances paid in lieu thereof, to any officer or other rank in His Majesty's Naval, Military or Air Forces, British or Indian, or in the Auxiliary Force, India, or in the Indian Territorial Force, or in the Royal Indian Marine; and

(32) Value of rent-free quarters occupied by, or money allowance paid in lieu thereof to, Indian officers, British Warrant and non-commissioned officers and men of His Majesty's Military or Air Forces, and British and Indian Warrant officers of His Majesty's Naval and Marine Forces; in all cases irrespective of whether the individual concerned is married or single.

(33) Conservancy allowance granted in lieu of free conservancy to non-departmental Warrant and non-commissioned officers of the Indian Unattached List, departmental non-commissioned officers of the India Unattached List not in receipt of consolidated rates of pay and Warrant and non-commissioned officers of the permanent staff of the Auxiliary and Territorial Forces.

(34) The value of the free education provided for the children of British Warrant and non-commissioned officers and any grants-in-aid made to British Warrant and non-commissioned officers in lieu of the provision of free education for their children.

(35) The income of persons, other than persons in the service of the Government, residing in the district of Angul.

(36) The perquisite represented by the right of any of the officers specified in the annexed list to occupy free of rent as a place of residence any premises provided by Government.

List of officers.

The Governor General.

The Commander-in-Chief.

The Governor of a Governor's Province.

The Chief Commissioner of any of the following Provinces, namely:—

The North-West Frontier Province,
British Baluchistan,
Delhi,
Ajmer-Merwara,
Coorg,
and the Andaman and Nicobar Islands; and
any first class Resident in the Political Department.

(37) Such part of income in respect of which tax is payable under the head "Property" as is equal to the amount of rent payable but not paid by a tenant of the assessee, where—

- (a) the tenancy is *bonâ fide*;
- (b) the defaulting tenant has vacated, or steps have been taken to compel him to vacate, the property;
- (c) the defaulting tenant is not in occupation of other property of the assessee; and
- (d) the assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent.

(38) The lump grants made by Government to the Indian Church—

- (1) for the provision of episcopal supervision and ministrations;
- (2) for the payment of allowances to clergymen entertained in lieu of Chaplaincies reduced; and
- (3) in lieu of the grants-in-aid at present given for the entertainment of clergymen of the Additional Clergy Society under Articles 602 and 603 of the Civil Service Regulations.

17-A. Exemptions—Incomes included in "total income".—
The following classes of income shall be exempt from the tax payable under the said Act, but shall be taken into account in determining the total income of an assessee for the purposes of the said Act:—

- (1) The interest on Government securities purchased through the Post Office, and held in the custody of the Accountant-General, Posts and Telegraphs.
- (2) Sums received by an assessee on account of salary, bonus, commission or other remuneration for services rendered, or in lieu of interest on money advanced, to a person for the purposes of his business,

where such sums have been paid out of, or determined with reference to, the profits of such business.

for the time being registered under the Co-operative Societies Act, 1912 (II of 1912), the Bombay Co-operative Societies Act, 1925 (Bombay Act VII of 1925), or the Burma Co-operative Societies Act, 1927 (Burma Act VI of 1927), or the dividends or other payments received by the members of any such Society on account of profits.

The exemption which extends both to income-tax and super-tax applies only to "profits" in the strict sense of the word as used in the Act and does not include "income" derived by Co-operative Societies from interest on securities or dividends. The Societies whose income liable to income-tax is not taxable at the maximum rate or who have no income liable to tax should apply to the Income-tax Officer concerned for the issue of exemption certificates authorising persons paying interest on securities not to deduct any tax at source or to deduct tax at a lower rate than the maximum, as the case may be.

Where a Co-operative Society incurs a loss under any head of income that has been exempted from tax by notification under section 60 (I) of the Act, such loss may be set off under section 24 against any income that is not so exempted.

- (4) Such part of the profits or gains of a firm which has discontinued its business, profession or vocation as is proportionate to the share of an assessee in the firm at the time of such discontinuance, if tax has at any time been charged on such business, profession or vocation under the Indian Income-tax Act, 1918 (VII of 1918), or if an assessment has been made on the firm in respect of such profits or gains under sub-section (I) of section 25 of the Indian Income-tax Act, 1922 (XI of 1922).

Apart from the particular cases mentioned in this paragraph, the incomes or portions of incomes exempted under section 4 of the Act and under the orders of the Governor General in Council under section 60 of the Act referred to in paragraph 17 are not only not subject to income-tax or super-tax, but they are also not to be taken into account in determining the rate of tax on other income; they are excluded from consideration altogether.

come-tax in favour of income derived from railway or tramway business (other than an electric tramway):—

An assessee deriving income from a railway or tramway business may at his option require that in computing the profits or gains of such business the following allowance shall be made in lieu of the allowances specified in clause (v), clause (vi) and clause (vii) of sub-section (2) of section 10 of the said Act, namely, the actual expenditure incurred by the assessee during the previous year on repairs, replacements and renewals of plant, machinery, buildings and furniture which are the property of the assessee.

Provided that an assessee who in any year has exercised the option hereinbefore conferred shall not be entitled save with the consent of the Commissioner of Income-tax to withdraw that option in any subsequent year.

Provided further that nothing in this notification shall apply to an electric tramway.

19. Exemption of income derived from property held under a religious or charitable trust.—Under section 4 (3) (i) income derived from property which is held under a purely religious or charitable trust or under any other legal obligation that it should be utilised for religious or charitable purposes is exempt. The word 'property' in this section does not bear the restricted meaning that it bears in section 9 of the Act but includes securities, a business, or share in a business.

Section 4 (3) (ii) similarly exempts the income of religious or charitable institutions which is derived from voluntary contributions and is applicable solely to religious or charitable purposes.

To secure exemption under clause (i) or clause (ii) of section 4 (3) the income of religious or charitable institutions and income derived from property held for religious or charitable purposes need not be actually spent on religious or charitable purposes *in the year of receipt*. It is sufficient if it is set aside for those purposes. Where a trust exists the income-tax authorities are not required to satisfy themselves that it is so applied. In the case of *mixed* trusts, the income-tax authorities are required to enquire into the application of the income. Where property is held in part only for religious or charitable purposes a proportionate share of any expenses incurred on management should be considered as applied to those purposes.

To remove doubts regarding the application of these two clauses, read with the definition of "charitable purposes," to universities and other educational institutions the special exemption under section 60 of the Act mentioned in paragraph 17 (9) was made.

Attention is also invited to the exemption mentioned in paragraph 17 (3) of scholarships granted to meet the cost of education in the hands of the recipients of the scholarships.

20. Exemptions of Provident Funds. [Sections 4 (3) (iv) and 4 (3) (v)].—Under section 4 (3) (iv), the interest on securities held by Provident Funds to which the Provident Funds Act, 1897 (now Act XIX of 1925), applies, is exempt from tax. Similarly under section 4 (3) (v), capital sums paid as accumulated balances at the credit of subscribers to such funds are exempt from tax and are not included in computing their “total income”. The words “accumulated balance” include not only contributions but also interest thereon. Under section 15 (1), contributions paid by a subscriber to such funds are also exempt from income-tax to the extent mentioned in section 15 (3). Contributions by employers to such funds stand on a totally different footing and are dealt with in paragraph 49. For special privileges for “recognised” provident funds see paragraph 20-A *et seq.* ...

The exemptions granted to Provident Insurance Societies which comply with the provisions of the Provident Insurance Societies Act, 1912, or which have been exempted from its provisions, were withdrawn by the Income-tax (Amendment) Act, 1924 (XI of 1924). Provident Insurance Societies to which the Provident Insurance Societies Act applies, or which have been exempted from its provisions and which were in existence before 1st April 1924 will continue to enjoy the exemptions under sections 4 (3) (iv) and (v) and section 15 (1) to which they were entitled under Act XI of 1922 before it was amended by Act XI of 1924. These concessions cannot be claimed by any other Provident Insurance Societies.

A special exemption has been granted [see paragraph 17 (19)] in respect of gratuities paid out of Railway Provident Funds on the retirement or death of the members.

20-A. Exemption of “recognised” Provident Funds.—Besides the Provident Funds mentioned in paragraph 20, Provident Funds maintained by employers [section 58-A (b)] which conform to the conditions laid down in section 58-C of the Act inserted by the Indian Income-tax (Provident Funds Relief) Act, 1929, enjoy certain privileges in respect of income-tax subject to certain conditions. The main conditions to which such Provident Funds must conform in order to secure these concessions are:—

- (1) that the funds shall be vested in two or more trustees or in the Official Trustee under an irrevocable trust;
- (2) that the employer shall not be entitled to recover any sum whatsoever from the Fund except where the employee is dismissed for misconduct or voluntarily leaves employment without adequate reasons;
- (3) that in any case such recoveries shall be limited to the contributions made by the employer himself;
- (4) that the subscriptions of the employees and the contributions by the employer shall be regular and not casual;
- (5) that the employers' contribution should not exceed the employees' subscription as a rule, and

- (6) that the employee shall be employed in India or the principal place of business of the employer shall be in British India.

The income-tax concessions are:—

- (a) contributions to a recognised Provident Fund both by the employee and the employer taken together shall be exempt from income-tax up to 1/6th of the employee's annual salary. In addition, an employee can obtain under section 15 (1) rebate of income-tax on insurance premia subject to the limit laid down in section 15 (3). If in any Fund the contributions made by an employee exceed the 1/6th limit, the excess contributions and the interest thereon together with interest in excess of the prescribed maximum (at present 6 per cent.) will be liable to tax.
- (b) income on the investments held by the Fund is also exempt from income-tax.
- (c) the accumulated balance due to an employee which includes interest on contributions—is also exempt from income-tax and super-tax and is not to be included in computation of the total income, provided the employee has rendered continuous service with his employer for not less than five years. The Commissioner has also power in certain circumstances to allow the exemption even when the service rendered is less than this period.

The contributions made by an employer to the individual accounts of his employee in a recognised Fund, less recoveries if any under the provisions of section 58-C. (1) (f), are to be allowed as an item of expenditure under section 10 (2) (ix) of the Act, as the Fund is an irrevocable trust.

20-B. Recognition of Provident Funds and withdrawal of recognition. (Section 48-B.)—The Commissioner of Income-tax may accord recognition to any Provident Fund which, in his opinion, satisfies the conditions prescribed in section 58-C and the Indian Income-tax (Provident Funds Relief) Rules. An employer objecting to an order of the Commissioner refusing to recognise a Provident Fund may appeal, within 60 days of such order, to the Central Board of Revenue in the form prescribed in the Indian Income-tax (Provident Funds Relief) (Central Board of Revenue) Rules.

There is no specific provision in the Act or Rules for an appeal against *withdrawal* of recognition by the Commissioner, but such an appeal should be allowed subject to the same conditions as are applicable to an appeal against an order of the Commissioner refusing recognition. The Government of India have reserved the power to withhold or withdraw recognition from any provident funds [section 58-B. (2)].

20-C. *Conditions to be satisfied by recognised Provident Funds.* (Sections 58-C and 58-D).—*Investment of funds.*—A recognised provident fund consists of contributions by employers and employees, accumulations, interest thereon and securities purchased therewith and no other sums. So long as the “transferred balance” [section 58-J (2)] and the employers’ contributions, interest thereon, etc., are not invested, the fund will consist solely of subscriptions, accumulations and interest thereon. If any part of the fund is deposited in the employer’s own concern, and the employer gives the Trustees a promissory note therefor the note may be considered to be a “security” within the meaning of section 58-C (1) (d). So far as the transferred balance of a fund is concerned, there is no restriction as to the manner in which it should be held or invested. It may be utilized in the employer’s own business, or deposited in a Bank or invested in “securities” in the widest sense of the term. The same is true of the employer’s contributions subsequent to recognition and the interest thereon and on the accumulations of such interest. The employees’ contributions subsequent to recognition and the interest thereon and on accumulations of such interest must be invested in the securities of the nature described in section 20 (a), (b), (c), (d) or (e) of the Indian Trusts Act, 1882, and payable in respect of both capital and interest in British India.

A reasonable interval should be allowed to the trustees to accumulate the contributions collected before requiring their investment as above.

A fund is not rendered ineligible for recognition by the fact that it can be closed or wound up at will by the employer or the Trustees, provided that it is not revocable otherwise than in accordance with section 58-C (1) (e).

The fact that a fund receives donations, for example from retiring partners, should not be held to render it ineligible for recognition.

Appreciation and depreciation in securities belonging to recognised provident funds.—In certain Provident Funds it is the practice to revalue the securities held at the end of each financial year and to take the appreciation and depreciation thus ascertained into consideration before allocating to the members their share of the annual profit. This practice does not render the fund ineligible for recognition. *Plus* and *minus* entries relating to such appreciation or depreciation should be made in the remarks column of the Form of account prescribed in rule 6 of the Indian Income-tax (Provident Funds Relief) (Central Board of Revenue) Rules (Part II of the Manual). Such appreciation or depreciation need not be taken into account in determining the rate of interest under section 58-F (2).

Forfeitures to recognised provident funds. [Section 58-C. (1) (d)].—The only amounts that an employer is allowed by the Act to recover from a recognised Provident Fund are his own contribu-

tions to the account of a dismissed employee or an employee voluntarily leaving his employment as stated in section 58-C (1) (f) and of interest on such contributions. If the rules of any fund provide for forfeitures to the employer of any other monies—for example of a dismissed employee's own contributions and the interest thereon, this provision is repugnant to section 58-C (1) (f) and renders the fund ineligible for recognition.

A provision for the forfeiture to the *fund* in certain circumstances (*e.g.*, assignment of employee's interest, an employee leaving service to take employment under a rival) of so much of the amount standing to the credit of an individual employee as is in no circumstances recoverable by the employer, under clause (f) of sub-section (1) of section 58-C of the Act, does not render the fund ineligible for recognition under that sub-section.

Such amounts represent accumulations of sums credited out of the employee's salary with interest thereon, and it is clear that these amounts are within the language used in clause (d) of sub-section (1) of section 58-C, read with the definition of "contribution" in clause (d) of section 58-A. The effect of clause (g) of sub-section (1) of section 58-C is not to require that so much of the balance at the credit of an individual employee as is not recoverable by the employer under clause (f) should be payable to the employee. It requires the accumulated balance due to the employee to be payable to the employee, and the definition of "accumulated balance due" in clause (g) of section 58-A expressly recognises the possibility that by the regulations of a fund any part of the balance to the credit of an employee may be excluded from the amount claimable by him and therefore from the accumulated balance due for the purposes of clause (g) of sub-section (1) of section 58-C.

While therefore recoveries by the *employer* are governed by clause (f) of sub-section (1) of section 58-C, forfeitures to the *fund* are left by the Act to be governed by the regulations of the fund, so that no provision in the regulations of the funds for the forfeiture to the *fund* of any part of the balance to the credit of the individual employee will render the fund ineligible for recognition.

The inclusion in the regulations of a provident fund of a provision for the forfeiture to the fund of the accumulated balance due to an employee who dies without heirs also does not make the fund ineligible for recognition. Such forfeiture to the fund does not put anything into the fund, because what is forfeited to the fund is already in the fund. As the act of forfeiture does not put any sum at all into the fund, it cannot be held to put into the fund any sum other than the contributions, etc., specified in section 58-C (1) (d). The question of the validity of a regulation forfeiting to the fund the accumulated balance due to an employee who dies intestate and without heirs does not arise, as the existence of a such a regulation, whatever it may be worth, does not affect the composition of the fund for purposes of clause (d) of sub-section (1) of the same section.

Payment of accumulated balances of recognised provident funds to employees discontinuing participation. [Section 58-C (1) (g) and (h)].—If an employee who is a subscriber to a recognised provident fund, the membership of which is optional, decides to discontinue his membership of the fund while not resigning his employment, he is entitled to claim repayment of the accumulated balance at his credit, under section 58-C (1) (g) of the Act. Under section 58-A (c) of the Act, an “employee” means an employee participating in a provident fund. Thus a person who discontinues his participation in a fund “ceases to be an employee” within the meaning of section 58-C (1) (g) and is, therefore, entitled to claim payment of the accumulated balance due to him.

A private provident fund, participation in which is *optional*, is not qualified for recognition unless the rules confer on the participants the right to receive payment of the accumulated balance whenever participation is discontinued.

20-D. *Recognised Provident Funds of businesses with principal place out of India.* [Section 58-C (1) (a)].—If a concern has its principal place outside British India, the Provident Fund of the employees of its British Indian business, if it is to be “recognised”, should be kept separate and must conform to the conditions imposed by the Act and the Rules thereunder. The expression “all employees” occurring in section 58-C (1) (a) refers to “all employees subscribing to the Fund” and not to all employees of the particular employer. If a concern has its principal place of business in British India, there is no objection to the foreign staff—that is the staff outside British India—subscribing to the Provident Fund. They will not get any rebate of tax on the monthly contributions since their salaries having been earned outside British India will not be taxed but they will get the advantage of the exemption from income-tax of the interest on the investments of the Fund.

20-E. *Interest on accumulated balances in recognised provident funds.* (Section 58-F).—Interest on accumulations in recognised provident funds is exempt from income-tax up to a rate to be fixed by Government which is 6 per cent. at present. In some funds, a provisional rate of interest is allowed to the employees in the first instance and the difference between the interest actually earned by the fund and the provisional rate so allowed is distributed between the employees on a basis which has some regard to the length of service of the employees. In such cases, the interest credited to the individual accounts should be exempted in so far as the average interest earned by the fund as a whole does not exceed the prescribed rate of interest.

20-F. *Interpretation of “salary” in relation to recognised provident funds.* [Section 58-F (1)].—That the expression “salary” as used in Chapter IX-A of the Act does not embrace everything taxable under the head “salaries” in accordance with sub-section (1) of section 7, is obvious from clause (b) of sub-section (1) of section 58-C read with clause (b) of section 58-D. For the

purposes of Chapter IX-A, "salary" includes so much only of an employee's remuneration as is of a specific monetary amount and is payable periodically. It includes "salary" (in the more general sense in which that expression embraces "wages") which is received by any category of employees other than those excluded in clause (c) of section 58-A.

20-G. *Accounts of recognised provident funds.* (Sections 58-I and 58-J).—The accounts of recognised provident funds are to be maintained in the form prescribed in the Indian Income-tax (Provident Funds Relief) (Central Board of Revenue) Rules. If a concern has several branches, the annual abstracts of the provident funds account should be sent by the employer to all Income-tax Officers who are responsible for assessing the employees.

The accounts to be made under the provisions of section 58-J must show in respect of every employee the particulars given in rule 8 of the Indian Income-tax (Provident Funds Relief) (Central Board of Revenue) Rules.

20-H. *Treatment of a fund transferred by employer to trustees.* (Section 58-K).—Any sum transferred by an employer before coming into force of the Indian Income-tax (Provident Funds Relief) Act, 1929, to the Provident Fund of his employees which has been converted into an irrevocable trust is a permissible deduction in assessing the profits of the employer. Sub-section (1) of section 58-K operates with reference to any assessment made after the coming into force of the Provident Funds Relief Act XII of 1929 *whenever the conditions necessary to its operation are satisfied.* The conditions necessary to its operation are that it can be predicated of the employer:—

(a) that he maintains a Provident Fund for the benefit of his employees,

(b) that he has not transferred the Fund or relevant portion thereof,

(c) that he transfers the Fund or relevant portion.

The use of the perfect tense in the definition of condition (b) and of the present tense in the definition of condition (c) shows that these conditions cannot be satisfied by any employer who, having already transferred the Fund or relevant portion before the Provident Funds Relief Act came into force, was not when the Act came into force in the position of not having transferred it, and was therefore not in a position to transfer it.

It must not be overlooked that while an employer who has effected a transfer before the coming into force of the Provident Funds Relief Act will not suffer the loss resulting from the operation of sub-section (1) of section 58-K, he will as a corollary not enjoy the benefit resulting from the operation of sub-section (2) of that section.

Employers' subscriptions to an unrecognised provident fund may be treated as business expenses if the conditions laid down in

paragraph 49 are satisfied. Lump transfers of accumulated subscriptions, with or without interest thereon, made after the Provident Funds Relief Act, 1929, came into force, are governed by section 58-K which is specifically made applicable to unrecognized as well as to recognized funds.

21. *Meaning of the word "securities" as used in section 4 (3) (iv).*—The definition of the phrase "interest on securities" in section 8 of the Act should not be applied to determine the interpretation to be given to these words in section 4 (3) (iv), since the words as used in section 8 are in a specially restricted sense and do not cover, for example, interest on so typical a form of security as a mortgage. Nor should the meaning of the word "securities" in section 4 (3) (iv) be restricted to the ordinary limited legal sense in which it must always have reference to a loan. Provident Funds are entitled to invest in any trustee security, and it has not been the intention of Government to discriminate between the various classes of investments which are thus legally authorised. The word "securities" in section 4 (3) (iv) should therefore be interpreted as covering all securities mentioned in section 20 of the Indian Trust Act.

22. *Perquisites or benefits not capable of conversion into money.*—The provision in section 3 (2) (ix) of the Act of 1918 that "any perquisite or benefit which is neither money nor reasonably capable of being converted into money" was not liable to tax, has been omitted in the Act, as the existence of that provision made it impossible to assess to income-tax, for example, rent-free residences in cases where the assessee had not the power to sub-let, while rent-free residences were liable to the tax where the assessee had the power to sub-let. An explanation has been added to section 7 (1) of the Act specifically providing for the taxation of perquisites in the form of rent-free residences.

Under section 7 (1) of the Act, all perquisites received by an employé in lieu of or in addition to salary or wages are liable to the tax. House-rent allowances and the value of rent-free quarters form additions to the remuneration of an employé; and even where residence in a particular town or building is necessary for the proper performance of the employé's duties, such allowances or perquisites cover expenses of a personal character which the employé would otherwise have to incur. They do not therefore "meet expenses wholly and necessarily incurred in the performance of the duties of an office or employment of profit" and are therefore not covered by the exemption in section 4 (3) (vi) of the Act and are taxable under section 7 or section 12.

Two conditions have to be fulfilled before the exemption specified in section 4 (3) (vi) can apply. The expenses incurred by the employé must be wholly and necessarily incurred in the performance of his duties as an employé; and the allowances or perquisites must have been granted by the employer with the set purpose of meeting the extra expense thus caused to the employé, and that extra expense only. It is thus a question of fact in each case

whether house-rent allowance or the value of rent-free quarters is exempt from the tax, but the following examples will serve to indicate the lines on which the decision should be made:—

- (a) A currency officer is granted rent-free quarters in his currency office. Even though his residence in that office is necessary for the proper performance of his duties, he will be liable to the tax on the value of his rent-free quarters, since he would in any case have had to provide himself with a residence, and the perquisite does not therefore meet expenses wholly incurred in the performance of the duties of an office or employment of profit.
- (b) A firm in Calcutta makes a practice of providing its employés with rent-free quarters, and houses some of its employés in its business premises as resident clerks. The employés of the firm, including the resident clerks, will, as in the previous case, be liable to income-tax on the value of their rent-free quarters.
- (c) A Government office has its headquarters in Bombay, but proceeds for some months in the year elsewhere, and grants its ministerial establishment house-rent allowances or rent-free quarters in the place to which it proceeds with the specific object of providing for the maintenance of a second and, from the point of view of the grantees, unnecessary residence in order that they may perform their duties there. The allowance or the value of rent-free quarters will be exempt from income-tax.

In all cases where rent-free houses form part of the perquisites of an employé, the cash value of such a house to the occupier should, in no case, be deemed to be more than 10 per cent. of the salary of the employé. Where an employé is provided with rent-free furnished quarters, no attempt should be made to split the value of this perquisite into its component elements, *i.e.*, rent-free quarters and rent-free furniture. The maximum of 10 per cent. of salary should be applied to the perquisite as a whole.

Such perquisites as (for example) tiffin, domestic services or the value of passages by rail or steamer provided by employers free of charge for their employees are not taxable because they are not convertible into money and there is no special provision in the Act in regard to them as there is in regard to rent-free quarters, but passage money paid in India by an employer to his employé to enable him to go on leave is liable to tax. If, however, passage money is remitted by the employer to the United Kingdom or a Colony and paid there to an employé on leave in such country, it should be regarded as a leave allowance covered by the exemption (23) in paragraph 17.

The "Delhi moving allowance" and "Delhi Camp allowance" which is granted to the members of the office establishments of the Army Headquarters and of certain Civil attached offices of the

Government of India during the period of their stay at Delhi and the Simla House-Rent Allowance granted under Rule 19 of the Simla Allowances Code and the value of rent-free quarters in lieu thereof fall under example (c) above and are exempt from the payment of income-tax. Special allowances granted solely to meet the higher cost of living in a station such as Compensatory local allowances and the Cutch exchange compensation allowance are liable to the payment of tax.

Rewards granted to officials for passing compulsory examinations must be distinguished from grants made to assist candidates to meet the expenses of preparing for such examinations. Such tuition grants fall under section 4 (3) (vi) of the Indian Income-tax Act (XI—1922) and are not liable to tax even if they are only paid to successful candidates. For example sums of Rs. 150 and Rs. 200 paid to military officers who have passed the Urdu qualifying and Preliminary Urdu examinations respectively are tuition grants—not rewards—and are therefore not liable to income-tax (see also paragraph 25).

In addition to the classes or portions of “Salaries” drawn by officers and other ranks of the Army in India (British and Indian) mentioned in paragraphs 17 and 22, the following allowances are not liable to income-tax:—

- Messing allowance;
- Sycc allowance;
- Forage allowance;
- Detention allowance;
- Meal money;
- Quarterly kit and clothing allowance;
- Outfit allowance;
- Tentage allowance whether separate or included in pay;
- Horse allowance;
- Travelling and conveyance allowances; and

Any capital sum received in commutation of the whole or a portion of a pension or in nature of consolidated compensation for death or injuries or in payment of any Insurance Policy or as the accumulated balance at the credit of a subscriber to any such Provident Fund.

The emoluments drawn by the officers and other ranks of the Army which are liable to income-tax are:—

1. Regimental Pay, Command or charge allowances, Staff Pay, P. S. C. Pay and Separation allowance.
2. Ordnance Pay.
3. Corps or Engineer Pay, Batta or field allowance.
4. Lodging allowance.
5. Value of rent-free quarters (officers).

6. Service or proficiency pay.
7. Extra duty pay.
8. Gratuities under Pay and Allowance Regulations, paragraph 137 (I).
9. Annuities under Pay and Allowance Regulations, paragraph 137 (II).
10. Bounty money.
11. Pension drawn in conjunction with pay.
12. Separation allowance.
13. Furniture allowance.
14. Pensions (except wound or disability) paid in India to British and Indian Officers and men, their widows, children and dependants.
15. Half-yearly gratuity paid to temporary nursing sisters.

The Marriage allowance is not taxable if paid to the wife of a soldier unless the total income of the wife including the allowance exceeds the minimum taxable limit. Similarly, Maternity benefit is liable only if the total income of the soldier's wife including the benefit exceeds the minimum taxable limit.

As regards the liability of language rewards and examination fees, see paragraph 25.

23. Casual gains. [*Section 4 (8) (vii).*].—In order to obtain exemption as “casual”, profits must comply with two conditions:—

- (1) they must not be the proceeds of a profession, vocation or employment, or arise from business, that is from “any adventure or concern in the nature of trade, commerce or manufacture”. [See section 2 (4)], and
- (2) they must not be annual.

Both these conditions must be fulfilled. The exemption also is specifically not to apply to any gratuity to an employé for services rendered so as to avoid the possibility of any ambiguity in connection with the use of the word “gratuity” in section 7 (I). The following are illustrations of the effect of the provisions of section 4 (3) (vii) —

- (1) A purchases a house with a view to re-selling it at a profit. His profits from the transaction are liable to income-tax (even although it be an isolated transaction)* B purchases a house for his own residence and later on sells it at a profit. His profit is not liable to the tax.
- (2) A wins a prize in a lottery or a bet on the race course. His receipts therefrom are not taxable. B is a bookmaker. His profits from betting are taxable.
- (3) A is a professional beggar. His receipts from mendicancy are not exempted from the tax by this sub-section.

*“*Cf. Rutledge *versus* Commissioner of Inland Revenue, Reports of U. K. Tax Cases, Vol. XIV, page 490”.

- (4) A makes a practice of speculating in the purchase and sale of shares. His profits therefrom are liable to the tax. B purchases Indian War Loan 1929-1947 at 95 redeemable at par. The premium received on redemption after a period of years is not liable to the tax. On the other hand the yield from Treasury Bills arising from their issue at a discount and repayment at par after 12 months or some shorter period is liable to the tax under section 12, though as this yield is not interest, the tax is not deducted at the source under section 18 (3).
- (5) A man writes a book. His receipts from its sale are taxable.
- (6) Lump sum legacies are exempt; annuities granted under a will are not exempt.

24. Income-tax Authorities. (Section 5.)—(1) The *Central Board of Revenue* is appointed by the Governor General in Council. Its specific powers are mentioned in the various sections, e.g., section 2 (6), 2 (11) (b), 5 (5), 18 (6) and 59. Rules for carrying out the purposes of the Act are made by the Central Board of Revenue which also issues instructions regarding the interpretation of the provisions of the Act and the rules, and is entrusted with the general administration of the Act.

(2) The head of the Income-tax Department of a province is the *Commissioner of Income-tax* who is appointed by the Governor General in Council. The rest of the income-tax staff in a province are subordinate to him and they are appointed and dismissed by him. His power of appointment and dismissal of Assistant Commissioners and Income-tax Officers is, under section 5 (4) "subject to the control of the Governor General in Council", but the Governor General in Council exercises this control through the local Government under the provisions of the following order:—

"The Governor General in Council desires to utilise the agency of the Governor in Council of each Governor's province in the following matters only in relation to income-tax,—

- (i) the appointment by a Commissioner of Income-tax of any person to the substantive post of Assistant Commissioner of Income-tax or Income-tax Officer shall be subject to the previous approval of the Governor in Council.

For the promotion of an Income-tax Officer or appointment of an officer of a Provincial Civil Service to the post of Assistant Commissioner of Income-tax, the Commissioner of Income-tax should consult the local Government and submit his nomination (of the Officer approved by the local Government) to the Public Service Commission through the Central Board of Revenue.

- (ii) Any Assistant Commissioner of Income-tax or Income-tax Officer who has been dismissed or removed from office or whose increment of pay has been withheld by the Com-

misioner of Income-tax shall have a right of appeal to the Governor in Council.

While as regards the appointment or dismissal of such officials the Commissioner is subject to the control of the local Government, he has full power to specify the functions to be performed by each official and the areas, persons and classes of income in respect of which these functions may be exercised.

The specific powers conferred upon him in regard to income-tax assessments are specified in sections 28 (1), 32, 33, 37, 54 (2) second Proviso, 64 (3) and 66 of the Act. In particular he is vested with power under section 33 to review any orders passed by any income-tax official, and he alone may, under section 66 of the Act, state cases for the opinion of a High Court.

(3) The functions of *Assistant Commissioners of Income-tax* are mainly appellate, but they also exercise supervision over the work of the Income-tax Officers. The particular powers conferred on them by the Act are set out in sections 28 (1), 30 (2), 31, 37, 38, 39, 42 (2) and 53.

(4) *Income-tax Officers* are the assessors. While section 64 of the Act specifies the particular Income-tax Officers by whom assessments shall be made, *i.e.*, prescribes that assessments shall be made in the case of a business by the Income-tax Officer of the area where the principal place of business is situated, and in all other cases by the Income-tax Officer of the area in which the assessee resides, sub-section (4) of that section provides that every Income-tax Officer shall have all the powers conferred by or under the Act on an Income-tax Officer in respect of any income, profits or gains accruing or arising or received within the area for which he is appointed. This particular provision was inserted mainly in order to permit of enquiries being made into the profits of a branch business by the Income-tax Officer of the place in which the branch is situated and in order to enable every Income-tax Officer to make enquiries regarding all income, profits and gains arising or accruing within the area to which he is posted, even though the assessment in respect of the particular income, profits or gains may not be made by him. Income-tax Commissioners should therefore secure by issuing instructions or otherwise that there is no overlapping in this matter and that the same person is not assessed to income-tax by more than one Income-tax Officer but should at the same time secure that all Income-tax Officers shall give the utmost assistance to the assessing Income-tax Officer in regard to any property, income, profits or gains within their respective areas which are liable to assessment elsewhere.

While it is intended that the work of making assessments, of hearing appeals and of passing orders in review shall ultimately be carried out by separate officials known as the Income-tax Officer, the Assistant Commissioner and the Commissioner, as a complete whole time staff for income-tax work has not yet been appointed in some of the provinces, section 5 (4) makes provision for the

continuance, until such whole time staff is engaged, of the existing system under which individual officers exercise the powers of an assessing authority in respect of particular classes of income and of an appellate authority in respect of others, while the reviewing authority is in certain cases also the appellate authority.

While the income-tax staff will as a rule be appointed in provincial cadres, there are certain classes of cases for which it may be advisable that assessments should be made by an all-India staff. Such, for example, are the cases of military officers and of officers of other departments serving directly under the Government of India who are liable to transfer from one province to another; and there may be other cases such as the assessment of railway companies which at any time it may be considered advisable should be dealt with by a special officer for the whole of India. Sub-section (5) of this section has been inserted to make provision for the appointment of special officers in such cases.

The officers specified in the 3rd, 4th and 5th columns of the schedule below have been appointed to perform all the functions of an Income-tax Officer, Assistant Commissioner of Income-tax and Commissioner of Income-tax, respectively, in respect of the persons specified in the corresponding entry in the 2nd column thereof.

SCHEDULE.

Serial No.	Persons.	Officer appointed to perform the functions of—		
		Income-tax Officer.	Assistant Commissioner of Income-tax.	Commissioner of Income-tax.
1	2	3	4	5
1	Employés of the Bengal and North-Western Railway.	Income-tax Officer, Gorakhpur.	Assistant Commissioner of Income-tax, Benares.	Commissioner of Income-tax, United Provinces.
2	Persons excluding pensioners and persons employed in Army factories, payable from Army estimates through the Controller of Military Accounts, Eastern Command, Meerut and Lucknow districts, Meerut.	Income tax Officer, Military Circle, Meerut.	Assistant Commissioner of Income-tax, Meerut.	Do.
3	Employés of the British India Corporation Ltd. stationed at Rangoon.	Income-tax Officer, Cawnpore.	Assistant Commissioner of Income-tax, Cawnpore.	Commissioner of Income-tax, United Provinces.

SCHEDULE—*contd.*

Serial No.	Persons.	Officer appointed to perform the functions of—		
		Income-tax Officer.	Assistant Commissioner of Income-tax.	Commissioner of Income-tax.
1	2	3	4	5
4	Employés of the Assam-Bengal Railway.	Income-tax Officer, Chittagong.	Assistant Commissioner of Income-tax, Dacca.	Commissioner of Income-tax, Bengal.
5	European employés in British India and Indian employés in Bengal, Bihar and Orissa, Assam and the United Provinces of Messrs. Ralli Brothers.	Income-tax Officer, Calcutta, District IIIA.	Assistant Commissioner of Income-tax, Headquarters (at Calcutta).	Do.
6	European employees of Messrs. Ralli Brothers in Berar.	Do.	Do.	Do.
7	Employés of the Imperial Tobacco Company, Ltd., and the Indian Leaf Tobacco Development Company residing in Bengal or Bihar and Orissa or Assam.	Do.	Do.	Do.
8	Employés of the Tobacco Manufacturers (India) Ltd. and the Printers (India) Ltd.	Do.	Do.	Do.
9	Employés of the Bengal Nagpur Railway.	Income-tax Officer, Railways and Miscellaneous Salaries Circle, Calcutta.	Assistant Commissioner of Income-tax, Calcutta.	Do.
10	Employés of the East Indian Railway except those of the Central India Coalfields Railway.	Do.	Do.	Do.
11	Government servants serving outside Bengal who are under the audit of the Pay and Accounts Officers, Miscellaneous Central Departments and the Survey of India, Calcutta.	Do.	Do.	Do.

SCHEDULE—*contd.*

Serial No.	Persons.	Officer appointed to perform the functions of—		
		Income-tax Officer.	Assistant Commissioner of Income-tax.	Commissioner of Income-tax.
1	2	3	4	5
12	Military employes under the audit of the Controller of Military Accounts, Presidency and Assam Districts, Calcutta.	Income-tax Officer, Railways and Miscellaneous Salaries Circle, Calcutta.	Assistant Commissioner of Income-tax, Calcutta.	Commissioner of Income-tax, Bengal.
13	Officers of the Women's Medical Service and of the Junior Branch of the same.	Income-tax Officer, Simla.	Assistant Commissioner of Income-tax, Ambala.	Commissioner of Income-tax, Punjab.
14	Military employes stationed in Sind who are under the audit of the Controller of Military Accounts, R. A. F., Ambala.	Income-tax Officer, Ambala.	Assistant Commissioner of Income-tax, Eastern Division, Punjab.	Do.
15	Employes of the Madras and Southern Mahratta Railway except those under the audit of the Audit Officer, Railway Collieries, Calcutta.	Income-tax Officer, 4th Circle, Madras.	Assistant Commissioner of Income-tax, Central Range, Madras.	Commissioner of Income-tax, Madras.
16	All Government servants who are under the audit of Accountant General, Madras and the Deputy Accountant-General, Posts and Telegraphs, Madras.	Income-tax Officer, 5th Circle, Madras.	Do.	Do.
17	Military employes under the audit of the Controller of Military Accounts, Poona and Southern Command, Poona.	Income-tax Officer, Poona District.	Assistant Commissioner of Income-tax, Central Division, Poona.	Commissioner of Income-tax, Bombay.

SCHEDULE—*contd.*

Serial No.	Persons.	Officer appointed to perform the functions of—		
		Income-tax Officer.	Assistant Commissioner of Income-tax.	Commissioner of Income-tax.
1	2	3	4	5
18	Government servants under the audit of the Accountant-General, Central Revenues, except those of the Indian Audit and Accounts Service attached to Railway and Postal Audit offices and Currency offices, Rangoon and Madras, the Military Accountant-General, the Deputy Accountant-General, Posts and Telegraphs, Delhi and Audit Officer, Indian Stores Department.	Income-tax Officer, Salary Circle, Delhi.	Assistant Commissioner of Income-tax, Delhi.	Commissioner of Income-tax, Delhi.
19	Non-Enemy Nationals paid through the Controller, Local Clearing Office (Enemy Debts).	Do.	Do.	Do.
20	Employés of the North Western Railway except those under the audit of the Audit Officer, Railway Collieries, Calcutta.	Income-tax Officer, Railway Salary Circle, Lahore.	Assistant Commissioner of Income-tax, Lahore.	Commissioner of Income-tax, Punjab.
21	Employés of the Bombay, Baroda and Central India Railway Company and the Great Indian Peninsula Railway Company except those under the audit of the Audit Officer, Railway Collieries, Calcutta.	Income-tax Officer, Salary Branch, Bombay City.	Assistant Commissioner of Income-tax, Bombay City.	Commissioner of Income-tax, Bombay.
22	Government servants under the audit of the Deputy Accountant-General, Posts and Telegraphs, Nagpur.	Income-tax Officer, Salary Circle, Nagpur.	Assistant Commissioner of Southern Charge, Nagpur.	Commissioner of Income-tax, Central Provinces and Berar.
23	Employés of the Eastern Bengal Railway.	Income-tax Officer, Railway and Miscellaneous Salaries Circle, Calcutta.	Assistant Commissioner of Income-tax, Calcutta.	Commissioner of Income-tax, Bengal.

SCHEDULE—*contd.*

Serial No.	Persons.	Officer appointed to perform the functions of—		
		Income-tax Officer.	Assistant Commissioner of Income-tax.	Commissioner of Income-tax.
1	2	3	4	5
24	Residents outside British India applying for refund of Income-tax under Section 49 of the Indian Income-tax Act, 1922.	Income-tax Officer, Non-Residents Refund Circle, Bombay.	Commissioner of Income-tax, Bombay.
25	Share-holders residing outside British India of a Company when the income of the non-resident shareholders arises in more than one British Indian Province.	Do.	Assistant Commissioner of Income-tax, Bombay City.	Do.
26	All persons assessed under Section 44C.	Do.	Do.	Do.
27	Employés of the American United Presbyterian Mission, residing in the United Provinces, the Punjab and the North-West Frontier Province.	Income-tax Officer, Gujranwala.	Assistant Commissioner of Income-tax, Lahore.	Commissioner of Income-tax, Punjab.
28	Employés of all Railway Collieries who are under the audit of the Audit Officer, Railway Collieries, Calcutta.	Income-tax Officer, Railways and Miscellaneous Salaries Circle, Calcutta.	Assistant Commissioner of Income-tax, Calcutta.	Commissioner of Income-tax, Bengal.
29	All employés in the Posts and Telegraphs Departments under the audit of the two Deputy Accountants-General, Posts and Telegraphs (Postal and Telegraph Branches), Calcutta.	Income-tax Officer, Railways and Miscellaneous Salaries Circle, Calcutta.	Do.	Do.
30	Employés of the India General Navigation and Railway Company, Ltd., and River Steam Navigation Company, Ltd., working in Bengal, Bihar and Orissa and Assam, except those who carry on business in addition.	Income-tax Officer, District V-A, Calcutta.	Do.	Do.

SCHEDULE—*contd.*

Serial No.	Persons.	Officer appointed to perform the functions of—		
		Income-tax Officer.	Assistant Commissioner of Income-tax.	Commissioner of Income-tax.
1	2	3	4	5
31	Government servants under the audit of the Accountant-General, Bihar and Orissa.	Income-tax Officer, Salaries Circle, Ranchi.	Assistant Commissioner of Income-tax, Ranchi.	Commissioner of Income-tax, Bihar and Orissa.
32	Government pensioners	Do.	Do.	Do.
33	Employés of the Tin Plate Company of India, Ltd., Golumuri (near Jamshedpur).	Do.	Do.	Do.
34	Employés of the Tata Iron and Steel Company at Jamshedpur.	Do.	Do.	Do.
35	Staff of the Imperial Agricultural Institute, Pusa.	Do.	Do.	Do.
36	Employés of the Central India Coal-fields Railway.	Do.	Do.	Do.
37	Employés of the European Mental Hospital, Ranchi.	Do.	Do.	Do.
38	Employés of the Indian Mental Hospital, Ranchi.	Do.	Do.	Do.
39	Employés of the Lac Research Institute, Namkum (near Ranchi).	Do.	Do.	Do.
40	Employés of the Rajputana Minerals Company, Ltd.	Income-tax Officer, Salaries, Bombay.	Assistant Commissioner of Income-tax, Bombay City.	Commissioner of Income-tax, Bombay.
41	European Staff of Messrs. Volkart Bros., working in the Punjab and Sind.	Income-tax Officer, B-Division, Karachi.	Assistant Commissioner of Income-tax, Sind.	Do.

able as salaries and tax should be deducted at source. (See also paragraph 22.) In regard to examiners' fees, if the conduct of the examination is part of the assessee's duties, the position is precisely the same as in regard to rewards for passing an examination. Even if it cannot be said that the assessee is under any obligation to do the work for which the fees are paid, the fees will be liable to tax if the work done can be regarded as incidental to the exercise of the assessee's profession, occupation or vocation, as when a school-master conducts an examination or a vakil sets or values papers in a law examination and should then be taxed as "Professional earnings". When there is no such close connection between the work done and the assessee's profession, for example, if a member of the Indian Civil Service set a paper in history, it would still be for the assessee to prove that the income was non-recurring, and in the absence of such proof the income would be taxable as income from "other sources". In such a case it would hardly be possible to tax such fees on the first occasion on which the assessee received them, but if he again received them in the following year the first year's fees could be taxed under section 34.

Honoraria or fees paid to Government servants by local bodies or private persons, companies, etc., for professional work, the whole of which are in the first instance credited to Government, after which the whole or part is drawn under proper sanction by the Government servant concerned on a bill, should be taxed as salary by deduction at source. They are obviously fees, commissions, or perquisites received in addition to salary and paid by or on behalf of Government [section 7 (1)].

For classes or portions of "salaries" which are entirely exempt from tax, see paragraph 17.

Income under this head is included in the income of the year in which it is received irrespective of the period in respect of which it was earned, with the exception that where an officer of Government takes an advance of pay, the tax is not chargeable on the advance, but the tax is charged on the full salary of the month in which the advance is recovered by deductions without any regard to the deduction. In cases where the payment of an assessee's salary in advance or in arrears makes his income assessable at a rate higher than that at which it would otherwise have been assessed, he may be granted relief under section 60 (2).

A portion of a salary withheld under the orders of a Court is liable to tax.

26. Salaries paid in India but outside British India. [Section 7 (2).]—See paragraph 1. This sub-section makes chargeable, under this head, salaries paid from Indian revenues to Government employes in any part of India and salaries paid by a local authority established in exercise of the powers of the Governor General in Council. All servants of Government or of such local authorities are, therefore, liable to pay tax on their salaries if they are employed in any part of India and irrespective of their nationality.

The words "or any servant of His Majesty" in this sub-section were inserted in the Act of 1918, so as to bring all servants of the Crown, whether British subjects or not within the purview of this sub-section, on the ground that it seemed unnecessary to give to persons who were not British subjects specially favourable treatment which was not accorded to British subjects.

The pay of officers whose services have been lent to, and whose salaries are paid by, Indian States are not chargeable to income-tax under this section unless they are drawn or received in British India; but the leave allowances and pensions of such officers are chargeable to income-tax unless covered by any of the exemptions in paragraph 17. The Government of India recover contributions at fixed rates from the Indian States to meet the cost of leave allowances and pensions of officers in foreign service and make themselves responsible for paying the leave allowances and pensions of their employés earned in foreign service. The portion of salaries of Government officers serving in Indian States, which is paid in the first instance by the Government of India but is subsequently recovered from the State concerned, is not liable to income-tax.

27. Salaries, etc., paid outside India.—Under exemptions Nos. 21—25 quoted in paragraph 17, leave allowances or salaries paid in the United Kingdom to, or drawn from any Colonial treasury by, officers of Government on leave or duty in the United Kingdom or in a Colony and the pensions of officers of Government residing out of India, which are paid in the United Kingdom or are drawn from any Colonial treasury, are exempt from tax. Similarly under exemptions 23 and 27 leave salaries or leave allowances paid in the United Kingdom or in a Colony to officers of local authorities or to employés of companies or of private employers on leave in the United Kingdom or in a Colony and pensions paid in the United Kingdom or in a Colony to officers of local authorities, or to employés of companies or of private employers, provided such officers or employés are residing out of India, are exempt from tax. Vacation salaries paid in the United Kingdom or in a Colony to Judges of High Courts or of Chief Courts, to Judicial Commissioners or to other officers of Government when on vacation therein are also exempt from tax—*vide* exemption No. 24 in paragraph 17.

Pay and allowances drawn by officers from the Indian revenues which are earned by them by service outside India are not liable to the tax unless they are drawn or received in India.

28. Interest on securities. (Section 8).—As regards sterling securities, see paragraph 16.

The interest chargeable under this section is the interest only on securities of the Government of India or of a local Government or on debentures or other securities for money issued by or on behalf of a local authority or company. It does not include the interest on debentures issued by firms, associations, clubs, or individuals the interest on which is chargeable under section 10 or 12.

With reference to the first proviso the Government of India War Bonds 1920, 1921, 1922, 1923, 1924, and 1928, 5 per cent.

loan 1945-55, Five-year 6 per cent. Bonds, 1926, Five-year 6 per cent. Bonds, 1927, Ten-year 6 per cent. Bonds, 1930, Ten-year 6 per cent. Bonds, 1931, Ten-year 6 per cent. Bonds, 1932 and Ten-year 5 per cent. Bonds, 1933, have been issued income-tax free.

The second proviso to this section prescribes that where a local Government issues a security as income-tax free, the income-tax on the interest thereon shall be payable by that local Government. So far as investors are concerned, therefore, securities issued income-tax free, whether by the Government of India or by local Governments, stand on exactly the same footing, that is, income-tax is

"Page 161.—In the 12th line of the first new sub-paragraph on the page, after the word "income" insert the following:—

"It should be included in the "total income" of the year in which it is paid".

the Accountant-General, Posts and Telegraphs (see paragraph 17-A). Super-tax is, however, payable by the recipient in respect of such interest, since, under section 58 of the Act, the provisos to this section do not apply to super-tax.

For interest on other securities, which are entirely exempt from tax, see paragraphs 17 (7), (8), and (28).

For interest on securities held by Provident Funds, etc., see paragraph 21.

The interest on securities held by a Co-operative Society is liable to income-tax (see paragraph 17-A).

Where a bank or other concern engaged in business similar to that of a Bank receives deposits or loans in the course of its business and invests the money so borrowed as occasion arises, it should be allowed in computing its liability to income-tax to set off the entire interest on such borrowings against its entire income liable to tax. No attempt should be made, for example, to allocate a proportion of the borrowed money to investments in tax-free securities and to set off the interest on such proportion against the tax-free securities instead of against the taxable income.

But (as an exception to the foregoing) in the rare cases in which there is definite proof (not a mere inference) that a certain sum was specially borrowed by a Bank or similar concern for the purpose of investment in tax-free securities and has been so invested, the interest on the money so borrowed should be set off against the interest on the tax-free securities and not against the income liable to income-tax.

Assessees other than Banks or similar concerns may set off interest on money borrowed specifically for investment in taxable securities or shares, and so invested, against their income liable to tax taken as a whole, and not merely against the interest on such securities or the dividends on such shares. In all such cases there must be clear proof and not a mere inference that the money was

specifically borrowed for such investment and actually invested. They cannot be allowed to set off against their income liable to tax interest on money borrowed for investment in tax-free securities and so invested.

Income-tax (but not super-tax) in respect of income chargeable under this head is deducted at the source [Section 18 (3)].

29. Property. (Section 9).—The tax is payable under this head in respect of property consisting of any building or lands appurtenant to a building by the owner of such property. Lands not attached to a building are not chargeable under this section. The income derived from vacant lands let out in urban areas for the purpose, *e.g.*, of storing materials is chargeable to the tax under section 12.

Buildings or lands occupied by the owner thereof for the purposes of his own business are not liable to the tax under this head. This particular provision was inserted in order to avoid the unnecessary complications in previous Acts under which the annual value of such property was liable to the tax under this head and a corresponding deduction was allowed to the owner under the head "business" (Section 10).

It is to be noted that it is only the owner who is liable to pay tax under this head. Where a person derives an income from house property which he holds on lease, such income is chargeable under section 12—"other sources".

30. Property—Definition of annual value. [Section 9 (2).]—The tax is, under the head "property", chargeable in respect not of any actual rental or cash received, but of the "*bonâ fide* annual value". The *bonâ fide* annual value of a building is the full market value at which the building could be let from year to year irrespective of any charges by way of municipal rates or taxes thereon. It therefore differs from the actual annual rent payable on a long term lease or the actual rent payable on a yearly lease under a privileged rental or with tenant's liability to pay owner's rates or taxes. The only limitation on taking the full market value is that in cases where the property is in the occupation of the owner for the purposes of his own residence the "annual value" is restricted to a maximum of 10 per cent. of the "total income" of the owner. The phrase "total income" in this definition has the meaning given to it in section 2 (15) of the Act, *viz.*, income, profits and gains of such owner from all sources to which the Act applies and, therefore, does not include income derived from any of the sources specified in section 4 (2) of the Act, (such as, for example, "agricultural income"), which are exempt from the tax.

31. Deductions allowed in respect of property.—It is to be particularly noted that, as stated in paragraph 53, no deductions are permissible on account of any municipal or local rates or taxes in respect of property. Nor can any allowance be made for brokerage for raising loans on mortgages and legal charges relating thereto since such charges are in the nature of capital charges. The only

deductions from the "annual value" permissible are those specified in section 9 (I).

Where an assessee is the owner of several items of property within the meaning of section 9 (I), the allowance admissible under that section should be worked out with reference to the annual valuation of the property taken as a whole and not item by item.

Ordinarily, no expenditure is allowed as a deduction in calculating income for the purposes of the Act except such expenditure as has been incurred solely for the purpose of earning that income. Under clause (iv) of sub-section (I) of section 9, there is no such restriction, so that a property owner is entitled to set off, against the annual value of property, the interest payable on a mortgage or other charge upon the property irrespective of the purpose for which the encumbrance was created.

The proviso to sub-section (I) of section 9 has no application to interest on money borrowed for business purposes even though such money may have been borrowed on the security of the assessee's property.

32. Proof of expenditure where deductions are claimed in respect of "property". [Section 9 (I).]—The allowance on account of repairs, [viz., one-sixth of the annual value in the case specified in clause (i), and in the case specified in sub-clause (ii), the amount permitted by that clause] is a fixed allowance which should be granted without proof of the actual expenditure in any year and irrespective of the amount of such expenditure. It should also be allowed in full even when an allowance is given for "vacancy" under section 9 (I) (vii). The allowances on account of the annual premium paid to insure the property against risk of damage or destruction or on account of annual charge or ground-rent or land revenue or of collection charges must be supported by proof of the actual expenditure. Interest that has fallen due on a mortgage should, however, be allowed as a deduction even though it may not have been actually paid.

33. Property. Insurance deductions. [Section 9 (I) (iii).]—The only insurance deduction permissible is the amount of the annual premium paid to insure the property against risk of damage or destruction. In some cases owners insure against loss of rent. Where an owner asks for an allowance on account of the annual premium for such insurance it should be allowed if such owner agrees to pay tax on any amount recovered from the insurance company. Where no such allowance is claimed or allowed tax is not to be charged on the amount recovered from the insurance company.

33-A. Property. "Charge." [Section 9 (I) (iv).]—Deduction should be allowed on account of any "charge" secured on the property and not merely of the interest on such a charge.

34. Property. Collection charges. [Section 9 (I) (vi).]—As regards collection charges rule 7 fixes 6 per cent. of the annual value as the maximum amount permissible. Where a house has remained vacant for a period, this maximum, of course, would never be reached and in many cases there will be no collection charges. The *maximum* amount permissible should be reduced in

all cases where a house has remained vacant for a period to 6 per cent. of the annual value as diminished by the amount allowed in respect of vacancies. Proof must always be given of the collection charges having been incurred. Rule 7 simply provides that, where there is proof of collection charges, such charges may be allowed subject to the provision that in no case shall the amount allowed on account of collection charges exceed 6 per cent. of the annual value.

Legal expenses incurred in recovering rents from tenants should be treated as a permissible deduction included in collection charges subject to the following conditions:—

- (a) Only net legal expenses, that is, expenses after deducting any costs recovered from the opposite party will be deducted.
- (b) The actual expenses incurred in excess of the costs deducted will be allowed in the year in which the decree is passed; a further allowance for costs proved to be irrecoverable will be given later, if necessary.
- (c) The total allowance for collection charges including legal expenses allowed must, of course, not exceed the statutory 6 per cent.

34-A. Property. Deduction for unrealised rent.—Unrealised rent on any property is exempt from income-tax and is also excluded in computing the total income of an assessee, provided that—

- (a) the tenancy is *bonâ fide*;
- (b) the defaulting tenant has vacated, or steps have been taken to compel him to vacate the property;
- (c) the defaulting tenant is not in occupation of other property of the assessee; and
- (d) the assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent.

35. Property. Allowance in respect of vacancies. [Section 9 (1) (vi).]—No fixed rule can be laid down regarding the allowance to be granted in respect of vacancies under clause (vii). Property is taxed on the “annual value” which, as noted above, is the commercial rent of a house—the rent which it would fetch if let by the year. Where the property is let at an annual rental corresponding to the annual value it would be fair to allow a proportionate deduction corresponding to the period of the vacancy, that is, if it were vacant for half the year, half the annual value might be allowed. Property may be let on short lease for a period less than one year and fetch a rent for that period far in excess of what has been fixed as the “annual value,” and in such cases no allowance obviously can be given. Where a claim is made on account of vacancies, the owner should be asked to state what the actual rental was that he had received for the period of the year during which the property was let and the amount allowed on account of vacan-

cies should, under no circumstances, exceed the amount by which the rent received falls short of the annual value. There can, of course, be no allowance in connection with any property which is reserved by the owner for his private occupation. A claim or account of vacancies can only be entertained in connection with property that is usually let.

36. *Property. Limitation of total allowance.* [Section 9 (1).]—The proviso to section 9 (1), that the aggregate of the allowances made under that sub-section shall in no case exceed the annual value, was inserted owing to the new provision in section 24 providing for the set-off of losses under one head against income, profits or gains under any other head. Instances have occurred of buildings situated in extensive grounds or on valuable sites being mortgaged for sums the interest on which is far in excess of the "annual value". The result of this proviso is that the annual value of the property belonging to an assessee can in no case be reduced to a *minus* sum owing to the allowances, and that there can be no loss under this head to be set against income, profits or gains under any other head.

37. *Method of accounting for assessing income, profits and gains under sections 10, 11 and 12.* (See section 13.)—Owing to a High Court ruling, referred to in paragraph 13, regarding the definition of the word "income" the provisions in the present Act have been so worded as to make it clear that as regards income, profits or gains from business, professional earnings or the other sources mentioned in section 12, no uniform method of accounting is prescribed for all tax-payers, and that every tax-payer may, so far as is possible, adopt such form and system of accounting as is best suited for his purposes. The only restrictions are that the method adopted must be one that clearly reflects the income of the assessee in respect of the fixed period of "the previous year" and that it is the one regularly employed by him for the purposes of his business. If the tax-payer does not regularly employ a method of accounting which clearly reflects his income for the "previous year," the computation will be made in such manner as in the opinion of the Income-tax Officer does clearly reflect it.

There are two main systems of keeping accounts. There is firstly the cash basis system, where a record is kept of actual receipts and actual payments, entries being made only when money is actually collected or disbursed. There is secondly, the mercantile accountancy system under which a profit and loss account is maintained and a comparison is made of the value of the stock in hand at the beginning and at the end of each year. Under this latter system entries are made in the accounts on the date not of receipt of money or expenditure of money, but on the date of transactions irrespective of the date of payment. When goods are sold, for example, an entry is made at once on the receipt side of the account, although no cash may be received at the time in payment of such goods; and an entry is similarly made on the debit side when a liability is incurred although payment on account of such

liability may not be made at the time. It will be the method of accounting adopted for or by the tax-payer, therefore, that will determine the period within which any item of gross revenue or any deduction therefrom is to be accounted for, and which will determine whether particular allowances are or are not permissible.

It is for this reason that the Act does not contain a complete statement of the deductions or allowances that are permissible or not permissible in working out business profits or professional earnings, since certain allowances or deductions can only occur where the mercantile accountancy system is adopted. There can, for example, be no allowance for "bad debts" where the cash basis is the method of accountancy employed. Under the mercantile accountancy system, as noted above, an entry is made on the receipt side when a sale is concluded, although the money on account of such a sale has not been paid and in making up the accounts at the end of the year such entries are treated as receipts; and the tax is levied on these "book profits." It may happen that some of these "book profits" cannot be recovered; they are written off as "bad debts" when found to be irrecoverable; and since such "book profits" have been included in the income assessed to income-tax, the "bad debts" must be written off against the "book profits" in the year in which they are written off in the accounts as irrecoverable. Where the cash system is adopted, there can be no "bad debts".

A bad debt or irrecoverable loan cannot be allowed as a deduction unless:—

- (a) the assessee has written it off his accounts.
- (b) it has actually become bad or irrecoverable, and
- (c) it actually became so in the "previous year".

The word "irrecoverable" in the term "irrecoverable loan" should be given a wider sense than its technical legal meaning.

The fact that a loan or other debt has become *legally* "irrecoverable" is not conclusive evidence that it is *actually* irrecoverable or "bad". But a loan or other debt that has become *legally* irrecoverable should ordinarily be treated as *actually* irrecoverable or "bad", unless the assessee proves it to be otherwise.

The contention often put forward by assessees, or their representatives that if a debt or loan is written off it can no longer be recovered by suit, should not be admitted because a creditor who has written off a debt or loan in his accounts as bad or irrecoverable is not in any way debarred from suing for its recovery unless the act of writing off is communicated to the debtor or it is agreed between the creditor and debtor that a certain amount shall be paid and accepted in full satisfaction.

Again, it will be the method of accounting that will determine the particular year in which allowances common to both systems of keeping accounts may be made. In sub-section (2) of section 10 of the Act provision is made for allowances on account of rent

paid, interest paid on capital borrowed, the amount of premium paid in respect of certain classes of insurance, amount paid on account of current repairs, etc., and sub-section (3) of section 10 states that the word "paid" means "actually paid" or "incurred" according to the method of accounting upon the basis of which profits or gains are computed, *i.e.*, where the cash basis is adopted, it will be the date of actual payment that will determine the year in which such allowances may be made, whereas if the mercantile accountancy system is adopted, the allowances can be claimed in the year in which the liability to pay accrued.

38. Method of accounting "regularly employed". (*Section 13*).—The method of accounting regularly employed by an assessee for the purposes of his business should, so far as possible, be the method adopted for working out his profits for income-tax purposes; but the Income-tax Officer has to decide whether that method of accounting is the one regularly employed for the purposes of the assessee's business and whether it is such as to reflect clearly the taxable profits for the "previous year". In most cases this should cause no difficulty. Doubtful cases should be referred to higher authorities. As an example of the principles to be followed in settling doubtful cases two instances of such cases are given. It is the practice amongst certain merchants to prepare their accounts on the basis of the mercantile accountancy system in respect of transactions between themselves and members of their own community, but on the basis of cash payments in the case of transactions between themselves and their customers. Provided that the same system is continuously employed, there appears to be no reason why this particular practice should not be considered to be a "method of accounting regularly employed". Again there are cases where the various branches of a business are only closed once in three or five years and where the accounts of the branches are not annually incorporated in the head-quarters business's accounts. In such a case it might be possible to assess either on the average annual profits of the branches as disclosed by the accounts last filed or on the actual profits brought to account owing to particular branches closing in particular years.

The cases in which an assessee desires to change his accounting system should be rare and where such a request is made, the Income-tax Officer in considering it should, as in the similar case of a demand for a change in the "previous year" (paragraph 6), if he is prepared to allow the change, take steps to secure that no profits escape taxation on account of the change. While section 13 leaves it to the discretion of the Income-tax Officer to decide whether a particular system of accounting should be accepted or whether a change in the system of accounting should be allowed, the discretion of the Income-tax Officer in this matter can be questioned in the course of an appeal against an assessment under section 30, *i.e.*, it may be made one of the grounds of appeal in contesting the assessment of the profits.

39. *Business (Section 10).*—“Any business” in sub-section (1) of the section means “any business or businesses”.

40. *Business deductions. General.*—While, as stated, in paragraph 37, it is not possible, owing to the variety of accounting systems, to prescribe exhaustive lists of deductions that are or are not permissible in the case of all businesses, section 10 (2) contains a list of allowances that are permissible in the case of all businesses. The following is a list of the deductions that are not permissible in the case of any business whatever the system of accounting may be that is adopted:—

reserves for “bad debts” or for “provident” or other funds or any other purpose such as the equalisation of profits or dividends;
expenditure of the nature of charity or presents;

expenditure of the nature of capital;

cost of additions to, or alterations, extensions or improvements of, any of the assets of a business;

sums paid on account of income-tax or super-tax in India or elsewhere or any tax levied by any authority other than land revenue, local rates or municipal taxes in respect of the portion of the premises only which is used for the purposes of the business;

drawings or salaries of the proprietors or partners; (*cf.* Madras High Court, Case No. 8 of 1921, Board of Revenue, Madras, *versus* B. S. Mining Co., Gudur I, Srinivasan's Tax Cases, page 176);

interest on the proprietors' or partners' capital including interest on reserve or other funds; (*cf.* Allahabad High Court, Case No. 223 of 1923, in the matter of Lalla Mal Hardeo Das Cotton Spinning Mill Co. of Hathras I, Srinivasan's Tax Cases, page 266).

Private or personal expenses of the assessee;

rental value of property owned and occupied by the owner of a business for the purposes of the business;

Losses sustained in former years;

any loss recoverable under an insurance or a contract of indemnity;

depreciation of any of the assets of the business other than the depreciation allowed under section 10 (2) (*vi*);

any sums paid on account of any cess, rate or tax levied on the profits or gains of any business or assessed at a proportion of or otherwise on the basis of any such profits or gains;

any expenditure of any kind which is not incurred solely for the purpose of earning the profits.

41. *Business deductions. Irrecoverable Loans.* [Section 10 (2).]—Where an assessment is made of profits or income from a banking or money-lending business, loans which cannot be recovered should be deducted from the assessed profits of such business at

the time when such loans can be definitely proved to be irrecoverable. For example, if a banker has lent out 5 lakhs of rupees and received Rs. 50,000 as interest but has during the same year lost an irrecoverable loan of Rs. 25,000, he should be assessed on Rs. 25,000. Similarly, if the same banker receiving Rs. 50,000 as interest on his loans suffers a loss of an irrecoverable loan amounting to one lakh during the same year, the income to be assessed to income-tax from the money-lending business in that year will be *nil*. These examples will apply whether the assessee had previously been assessed to income-tax or not.

This instruction will also apply to the assessment of other traders, where loans have been made in connection with the business and in which the loans are of the nature of the business and the loss is a true trading loss.

The irrecoverable loans in the sense referred to in this paragraph are sometimes confused with the "bad debts" described in paragraph 37, but they are of a totally different nature. Money lent out on interest is the stock-in-trade of a money-lender or banker and the loss of such stock-in-trade can clearly be regarded as a trading loss like the loss of the stock-in-trade of any other trader where the loss is not covered by insurance. In settling claims of this nature the question has always to be considered whether money-lending is, or is not, a part of the business of the trader in question. The investment of savings or occasional loans made to acquaintances cannot be considered to be loans made in the course of trading.

42. Allowance on account of rent of business premises. [Section 10 (2) (i).]—The allowance referred to in this clause is only in respect of that portion of the premises in which the business is carried on and the same limitation applies to all allowances relating to premises or buildings in clauses (ii), (iv), (v), (vi) and (viii). Where premises are owned by the owner of the business, of course no allowance on account of rent, is permissible since the owner is not liable to pay tax on the annual value of such premises under section 9. Where the trader resides in a part of the business premises, the full rental cannot be set against the profits and the Income-tax Officer must, in each case, determine the portion of the rent that may so be set off.

43. Allowances on account of repairs of business premises.—Where the assessee is himself the owner of his business premises, he is allowed as a deduction the amount spent on repairs each year on the portion of the premises used for the purposes of the business under section 10 (2) (v); where he is the tenant of the premises, he is, under section 10 (2) (ii), allowed the amount expended by him on repairs if his lease requires him to execute repairs. Where the premises are occupied partly as a residence and partly for the purposes of a business, the same proportion of the disbursements on repairs should be permitted to be deducted as is taken in calculating the rent permissible under section 10 (2) (i).

The phrase "current repairs" in section 10, sub-section (2) (v) should be interpreted to mean such repairs required to keep building, machinery, plant and furniture, in serviceable condition, as are rendered necessary by ordinary wear and tear (as opposed to accidental or wilful damage or other unusual causes) and are of their nature recurrent (supposing that the owner displays reasonable care and prudence in keeping the asset, whatever it may be, in good order) at comparatively short intervals—say, at least, once in two or three years. It also includes minor replacements (in respect of which it would be absurd to expect an entry to be made in a block account or similar record or in any records maintained for the purposes of calculating depreciation) and also mere adjustments of existing parts and in the case of machinery or plant, any replacement or renewal which is not so extensive as to destroy its identity.

Expenditure on anything that, if it had been done when the asset was new, would have increased its capital value should be regarded as capital expenditure.

44. *Business—Allowance in respect of borrowed capital.* [Section 10 (2) (iii).]—The allowance under this clause can only be given where payment of the interest is not in any way dependent on the earning of the profits. It cannot be allowed, therefore, in respect of any borrowings the interest on which is not payable unless profits are earned or the interest on which varies according to the amount of the profits earned. In all cases it will be a question of fact whether the payment of interest is or is not actually dependent on the earning of profits. No allowance can be made in respect of the share capital of companies or of the capital put into a firm by the partners; but a company is entitled to an allowance of the interest paid on its debentures and a firm to an allowance of interest of money borrowed under a mortgage. On the other hand, a firm alleging that it has no independent capital and that it is working only on capital lent by the partners at a definite rate of interest which must be deducted from the earnings of the firm before its profits can be declared, is not entitled to allowance under this section unless definite proof is given that a particular partner has made a legal loan to the firm, *i.e.*, a loan under an instrument on which he can sue and under which interest at a fixed rate is to be paid to him annually irrespective of the earning of any profits. (*Cf.* Allahabad High Court, Case No. 223 of 1923, in the matter of Lalla Mal Hardeo Das Cotton Spinning Mill Co. of Hathras I, Srinivasan's Tax Cases, page 266). Similarly the share of profits given to Mohammedan depositors in lieu of interest on borrowed capital cannot be allowed as a business expense.

Salaries or commission paid to a partner can, under no circumstances, be treated as a business expense.

No rule has been made under the "explanation" to this clause defining what Mutual Benefit Societies are to have the benefit of the "explanation". It has been found that the "explanation", if applied, is likely to give more trouble to the societies than the present procedure. Executive instructions have however been

issued that in the case of such societies (which appear to be peculiar to the Madras Presidency) where the taxable income is Rs. 5,000 or under and where the "shareholders" or "subscribers" reside within the limits of the circle of one Income-tax Officer, the company or society should not be assessed direct to income-tax, but the principal officer should furnish the Income-tax Officer with a list of the amounts paid out to subscribers showing the original subscriptions or capital invested and the interest thereon and the Income-tax Officer should ascertain what particular recipients of these payments are liable to tax and should add the amount of interest that they have received to the income on which they would otherwise have been assessed, that is, he should assess the recipients direct.

45. Business—Allowances in respect of insurance premia. [Section 10 (2) (iv).]—The allowances under this clause are restricted to insurance policies taken out against the risk of damage or destruction of buildings, machinery, plant, furniture, stocks or stores, used for the purposes of the particular business of which the profits or gains are being calculated and no allowance can be made on account of *premia* in regard to other insurances. Further, any sums not actually expended on *premia* but merely set aside by a company or firm as an insurance fund are simply a particular description of reserve and no allowance or deduction can be given in respect of such reserves.

The Act does not contemplate the deduction of *premia* on account of insurance against a loss of profit. If, however, the owner of a business elects to claim any such allowance, he should signify his intention to the Income-tax Officer—and if he makes a declaration in writing, undertaking generally to pay the tax on any amounts recovered from an Insurance Company under any such policy or policies, the allowance will be granted in respect of the *premia* for any such policies that he may have taken out not more than a month before the date of such declaration or that he may take out subsequent thereto. Where no allowance is asked or allowed in respect of such policy, any sums received from the Insurance Company on account of the policy will not be liable to tax.

46. Allowances in respect of depreciation. [Section 10 (2) (vi).]—The allowances permissible under this clause are prescribed in rule 8 and the information that must be furnished in order to obtain an allowance is set out in rule 9. It is only the particular classes of buildings, machinery, plant or furniture mentioned in rule 8 in respect of which the depreciation allowance can be claimed, and the buildings, machinery, plant or furniture for which depreciation allowance is claimed must be used for the purposes of the particular business of which the profits or gains are being computed. No allowance can be claimed on account of depreciation, for example, of any portion of a building which is used as a residence by the assessee. Further, the buildings, etc., must be

the property of the assessee. No allowance can be claimed if they are leased from others.

Buildings belonging to the owner of a business and used by him in order to house his employes are buildings used for the purpose of business if the owner charges no rent. If, however, rent is charged, section 9 would apply.

The Madras High Court in Commissioner of Income-tax, Madras, *versus* Messrs. Massey & Co., Ltd., Madras II, Srinivasan's Tax Cases, page 302), have ruled that when a person succeeds to a business, he is entitled to carry forward for the purpose of assessment the unexhausted depreciation allowance in respect of buildings, machinery, plant, etc., due to his predecessor in the year previous to the succession. The depreciation allowance due to the successor on account of the buildings, machinery, etc., taken over by him should therefore be worked out on the basis of the original cost to the predecessor and not on the value at which the building, machinery, etc.; are taken over by him.

Except where there has been a succession, the percentage allowance is on the original cost of the machinery, etc., *to the assessee* and not the original cost to a previous owner if it had been purchased from a previous owner. Depreciation should be allowed on the cost of setting up machinery and plant, that is, the expression "original cost" in Section 10 (2) (vi) should be held to include the cost of freight, pay of Engineer and staff who erect the machinery, put it in working order, and carry out experiments to test it. The rates of depreciation allowance fixed in rule 8 are fixed rates for the whole of India. Depreciation at those rates must be allowed each year when there are sufficient profits, and only the excess of the depreciation allowance over profits can be carried forward from year to year until absorbed, and this practice must be followed whether the depreciation allowance is adjusted in the accounts of the assessee or not and irrespective of the amount shown in the accounts. It is for this reason that in the form of returns of income prescribed in rules 18 and 19 any amounts entered in the accounts of an assessee for the depreciation of any of the assets of the business must be written back as the amount allowed for income-tax purposes is the amount prescribed in the rules and not the amount entered in the books of the assessee.

Where an assessee owns more businesses than one, any part of the depreciation allowance in respect of one business, that cannot be set off against the profits of the same business, owing to the profits in question being insufficient, shall be set off, if possible, against the profits for the same year of any other business or businesses owned by the assessee. Any amount of depreciation that cannot be set off against the assessee's business profits for the same year, whether he owns one business or more, shall be set off under Section 24 against his income, profits or gains under any other head in that year. Any part of the depreciation allowance due to an assessee that cannot be set off against his income, profits or gains under all heads for the year in question, shall be carried

forward to the next year under proviso (b) to sub-section (2) (vi) of Section 10 of the Act. The assessee should not be allowed the *option* of either setting off unabsorbed depreciation allowance against the profits of any other business or against other heads of income, profits or gains on the one hand or carrying it forward on the other.

This clause provides for the depreciation of furniture, but it may not suit the convenience of particular traders to ask that a depreciation account should be kept up for petty items of furniture and a depreciation allowance on account of furniture should, therefore, be granted only in cases in which it is asked for, in which event the cost of replacement should not be allowed; where such depreciation allowance is not asked for, the cost of replacement should be allowed in the year in which the furniture is replaced.

Whatever depreciation allowances are granted, it will be necessary to maintain an account showing the original cost to the assessee of the plant, the amount of the annual allowance, the amount of the allowances already granted and the balance still to be allowed.

The percentage allowance fixed in the rule for the permanent way of electric tramways only covers cases where the number of car miles per mile of track does not exceed 125,000 car miles per annum. Where the number of car miles per mile of track per annum exceeds 125,000 special terms will have to be made in each case. Similarly special consideration should be given to each case where there are special circumstances such as exceptional gradients, the compulsory use of wood paving, etc., tending to show that the car mileage does not fairly represent the wear and tear of the track. The cost of renewing concrete foundations should be allowed as a trading expense as and when incurred, provided that, if the renewed foundations are an improvement on the old ones, so much of the cost of the renewed foundations as represents such improvement should not be admitted as a trading expense. Amounts received for the old materials, whenever renewals are effected, should be credited against the cost of the renewals, and if the old materials are not disposed of at the time or are used for other purposes, their estimated value should be deducted, subject to adjustment if necessary, as and when the old materials are disposed of. The percentages fixed for the depreciation of the permanent way are based upon the estimated life of a track from a consideration of the number of car miles per mile of track, and consequently these percentages may vary in connection with the same undertaking. It must be clearly understood that the revision of the life of a track need not necessarily be deferred till the whole track is renewed, because it may become clear before that date that revision is necessary either in the direction of increasing or decreasing the average life. As regards the rate for general plant, machinery and tools, all other plant and machinery including workshop tools but excluding loose implements, office furniture and small articles which require frequent renewals (expenditure on which is allowed as a business expense against revenue), should be lumped together and

the rate of 5 per cent. depreciation should be allowed thereon in addition to the cost of repairs. No depreciation should be allowed on overhead equipment, *i.e.*, trolley wires and connections: all expenditure on maintenance and renewals should be charged as working expenses, as and when incurred.

The item "Below ground—All to be charged to revenue" in exception (1) under item 6 (Mineral oil companies)—B. (Field operations), in Rule 8 means that on the plant in question (pipes, etc.) below ground, depreciation is to be allowed at 100 per cent., so that if the profits are insufficient in any year to allow of the full 100 per cent., being written off against them, the balance can be carried forward, under proviso (b) to section 10 (2) (vi) of the Act to subsequent years.

No depreciation allowances are granted to railways on account of depreciation of their rolling stock as renewal charges are allowed as a business deduction.

An assessee deriving income from a railway or tramway (other than an electric tramway) business may at his option require that in computing the profits or gains of such business the following allowance shall be made in lieu of the allowances specified in clauses (v), (vi) and (vii) of sub-section (2) of section 10 of the Act, namely:

The actual expenditure incurred by the assessee during the previous year on repairs, replacements, and renewals of plant, machinery, buildings and furniture which are the property of the assessee.

If he, however, has exercised the option referred to above in any year, he shall not be entitled to withdraw that option in any subsequent year without the consent of the Commissioner of Income-tax.

No depreciation allowance can be allowed on professional equipment, *e.g.*, surgical and dental instruments, because as the law stands, depreciation on machinery and plant, etc., can only be allowed in computing income from *business*, and not under section 11 in computing income from a profession. The cost of replacing (as distinguished from original and additional purchases) such instruments should be allowed as an expenditure under section 11 (2).

As stated in paragraph 40, no allowance can be made on account of the depreciation of the assets of a business other than the particular items mentioned in this sub-clause and in rule 8. No depreciation allowance, for example, is permissible to provide for the amortisation of capital sums paid on account of the purchase of the lease of a mine or for the depreciation of wasting assets such as coal. Depreciation allowances should, however, be allowed for sinking shafts, tramways and sidings in coal mines, which and included in the term "plant".

Where a business of such a nature that the profits derived from it were not previously liable to tax owing to a special exemption

conferred either by statute or by notification, or rule having the force of law (examples are Shipping Companies and Indigo Companies), is taxed for the first time, the assessee is not entitled to claim in the first year of taxation, under proviso (b) to section 10 (2) (vi), accumulated depreciation allowances for all the years during which the profits of the business were not liable to tax. But in such cases depreciation must be allowed year by year for the full period of 20 years (or whatever it may be).

Shares and securities held as part of the capital of a business should be similarly dealt with. So long as shares or securities continue to be held by a company, firm or individual as part of his or its capital, any depreciation or appreciation in their market value is outside the scope of the Income-tax Act; and similarly, when the value of shares and securities so held (for example, the securities constituting the reserve fund of a bank or other company) is realised, the transaction is a capital transaction, and no account should be taken for income-tax purposes of any profit or loss resulting from the sale. On the other hand, where an individual company or firm habitually uses part of his or its resources in the purchase of securities or shares with a view to obtaining profit on their sale and the subsequent re-investment of the proceeds, the individual, company or firm is, in altering his or its investments, carrying on a trade for the sake of obtaining profit therefrom, and the profits secured or losses incurred are trade profits or losses which must be taken into account in determining the assessment to income-tax. It will, therefore, always be a question of fact to be decided on the merits of each case whether the changes in investment are of sufficiently systematic a character to constitute the exercise of a trade, but if they are, the profits therefrom are liable to assessment, and an allowance must be made for any losses in calculating the amount of tax payable.

47. Business—Obsolescence allowances. [Section 10 (2) (vii).]—It must be particularly noted that the allowances under this clause can only be given where the machinery or plant *becomes obsolete*. Where machinery or plant is sold for reasons other than that it has become obsolete, no allowance can be given. Where a machine is sold no allowance can be given if the facts present evidence that the machine is not obsolete.

The amount allowed for obsolescence is, again, calculated upon the original cost *to the owner*. The amount to be given is the amount of such original cost to the owner as reduced by the depreciation allowances under clause (vi) and the amount for which the machine is actually sold or its scrap value. For example, a machine costing Rs. 10,000 on which a depreciation allowance of 10 per cent. of the original cost is admissible is sold after 5 years for Rs. 2,000. The original owner gets Rs. 5,000 for depreciation and nothing for obsolescence as the machine is not scrapped or sold on account of obsolescence. The second owner gets also an allowance at the rate of 10 per cent., and as the cost

of the machine to him was Rs. 2,000, his annual allowance is Rs. 200. If owing to its becoming out of date the machine is scrapped useless after three years, then in the year in which it is so scrapped the second owner can claim Rs. 1,400, for obsolescence. No allowance for obsolescence is obviously permissible if the machine lasts 10 years or more *with any one owner*. Where, however, the "second owner" is not merely a purchaser but a "successor" to the business of his predecessor to which the machine originally belonged, the amount allowed for obsolescence is calculated on the original cost *to the predecessor* and not on the value at which the machine was taken over. In this case no allowance would be permissible if the machine lasts 10 years *in all*.

47-A. Business—Allowance on account of dead or useless animals. [Section 10 (2) (vii-a).]—The allowance in respect of live stock that has died or become permanently useless to the assessee should be granted whether the live stock is replaced or not.

48. Allowance on account of rates or taxes. [Section 10 (2) (viii).]—The allowance under this clause covers only the land revenue and local rates or municipal taxes paid in respect of the portion of the *premises* used for the purposes of the business. In assessing income from business a local rate or tax which is payable irrespective of whether profits are made or not should be treated as expenditure incurred *solely* for the purpose of earning profits or gains within the meaning of section 10 (2) (ix) if the rate or tax is not an admissible deduction under section 10 (2) (viii). No allowance can be given on account of any other rates or taxes whatsoever. All rates and taxes therefore, whether levied on the profits of a business or which are charged on the proprietor of a business in respect of anything other than the actual portion of the premises used for the purposes of the business, must be disallowed. (See also paragraph 53 and Patna High Court. Case No. 102 of 1920, in the matter of Raja Jyoti Prasad Singh Deo of Kashipur I, Srinivasan's Tax Cases. page 103.)

48-A. Business—Allowance on account of bonus paid to employés [Section 10 (2) (viii-a).]—The allowance under this clause covers any sums paid as bonus or commission to an employé for service rendered if such sum would not have been payable to him as profits or dividends if it had not been paid as bonus or commission, provided that the amount is reasonable with reference to his pay and conditions of service, the profits of the business for the year in question and the general practice in similar businesses.

49. Miscellaneous business deductions. [Section 10 (2) (ix)].—While the Act makes no provision for contributions by employers to private provident funds constituted for the benefit of their employees being deducted in arriving at business income liable to allowed as a business expense in all cases where the funds are tax, contributions to such provident funds by employers should be

constituted as irrevocable trusts and where no part of the employers' contributions can be recovered by them. Where, however, such funds remain in the hands or under the control of the employers, no contributions by them can be allowed as a business expense; but in such cases actual payments made to employees leaving the service of the employer should be allowed as a business expense in the year in which such payments are made, so far as such payments are made from the contributions of the employers whether in that year or in preceding years. As regards employers' contributions to "recognised" provident funds, see paragraphs 20-A and 20-H.

The same remarks apply to superannuation funds or reserves for the purposes of providing pensions to ex-employees. Actual sums paid as pensions to ex-employees or to the widow or children of an ex-employee should, however, be allowed as a business expense where the pensionary payment is a fixed or recurring one, but no claims on account of "pensions" should be entertained where the "pensions" are paid to persons who have or who at any time had a share or interest in the business.

Premia paid by an employer to cover the risk of liability to compensate any of his employes for injuries, under the Workmen's Compensation or Accident Insurance Act (VIII of 1923) should be treated as business expenses and allowed under section 10 (2) (ix) as a deduction in assessing income from business.

The following principles should be observed in dealing with claims that *bona fide* expenditure for the welfare of the employes of a business should be allowed as a business expense. No contributions towards expenditure incurred by outside bodies which may benefit the employes of a company or firm incidentally with members of the general public, should be allowed, such as contributions for the support of clubs, recreation grounds, religious institutions, dispensaries, hospitals, schools and the like. If, on the other hand, an assessee maintains a school or a dispensary solely for the benefit of his employes reasonable expenditure on the *upkeep* of such an institution should be allowed as a working expense. Similarly, expenditure incurred in the maintenance of a conservancy staff employed to keep the surroundings of the dwellings of the employes of a concern in a sanitary condition should be allowed. In no case, however, should any capital expenditure be allowed, such as, for example, the amounts expended on the construction of latrines, drains, water-works or hospitals.

Sums embezzled by an employee are an admissible charge against the business of his employer.

Assessees sometimes receive from their constituents payments intended to cover Railway expenses, cooly charges, etc., which they have to incur in the course of their business. When payments are made out of the sums and are debited specifically to constituents they may be allowed as deductions from the assessable income, without insisting on strict proof of payment by the production of

vouchers, provided that it is reasonably certain that the payments have been made.

Indian traders and business men charge their customers or clients a small fee on each transaction—for example so many pies on each bag of some commodity sold—the proceeds of which are supposed to be devoted to various religious, charitable or educational purposes. Such *customary* subscriptions by clients and customers for religious or charitable (including educational) purposes, and the corresponding expenditure by the assessee, should be left out of account altogether in computing the taxable income, provided that the Income-tax Officer is reasonably satisfied that the sums in question are really applied by the assessee ultimately (and not necessarily in the year of collection) to the object for which they were ostensibly collected. No attempt should be made to separate these subscriptions from the trade expenses of the customers or clients to whom they are charged and to disallow them as not being trade expenses.

Sums received for political purposes should be included in income and the corresponding expenditure on these purposes should not be allowed as a deduction from the taxable income.

Strictly speaking, the cost of audits and similar operations conducted specially for income-tax purposes, whether in connection with assessments, with appeals, or with revision petitions, cannot be allowed as a deduction from taxable profits (Ruling of the Madras High Court in Secretary, Board of Revenue (Income-tax), Madras, *versus*, D. Munisami Chetty & Sons, I, Srinivasan's Tax Cases, page 227).

The reason for this is, of course, that whereas an audit or similar operation conducted in the ordinary course of business is properly treated as a "business expense", it is clear that one conducted purely in connection with Income-tax proceedings cannot be said to be incurred solely for the purpose of earning the profits or gains subject to income-tax [see section 10 (a) (ix)]. Since, however, there may be difficulty in individual cases in determining whether an audit or similar operation has been conducted wholly or partly for business purposes and, in the latter case, what portion of the expenditure incurred in connection with it can properly be treated as a "business expense", it has been decided that audit or other accountancy services in connection with an assessee's accounts for the previous year rendered before his return of income is made, if such a return is made on the due date, or within any extended period allowed by the Income-tax Officer for its submission, should be treated as work done for ordinary business purposes and therefore the expenditure incurred thereon should be regarded as an admissible deduction in computing taxable income.

50. *Method of converting the net profits of sterling companies into rupee for the purposes of income-tax.*—Where the business of a sterling company is transacted entirely in India, there is no need

for the Income-tax Officer to look at the sterling accounts as he can get a record and ask for a return of the transactions in rupees. He should act in the same way in cases where the profits of the Indian branch of a company operating in other countries can be separately ascertained. In the case of a company operating through local branches in different countries where the profits of the Indian branches cannot be ascertained separately but have to be deduced from the total sterling profits of the company from all its operations, the net profits of the company for the purposes of assessment to Indian income-tax should be converted into rupees at the rate of exchange ruling on the last day of the year to which the account relates unless the Income-tax Officer is able, by an examination of the accounts, to ascertain the average rate of remittances throughout the year and to deduce from that the rupee profits of the Indian branches.

51. *Premia on issue of shares.*—The premia received by a company on issue of shares are capital receipts, and, as such, not chargeable to tax. In the same way the cost of issuing shares is capital expenditure and cannot be allowed as a deduction for income-tax purposes.

51-A. *Professional earnings—Deductions.*—[Section 11 (2).]—The cost of replacing furniture, office equipment and instruments used for the purposes of their profession by professional men, such as Doctors, Accountants, Lawyers and Architects, can be allowed as an expense under Section 11 (2). The cost of original or additional purchases cannot be allowed.

52. *Income from "other sources."*—*Deductions.* (Section 12.)—The interest paid on money borrowed for the purchase of shares or securities can only be set against the income obtained from the shares or securities where it is proved either by a banker's certificate or otherwise that the borrowing has been definitely and solely for that purpose; but where such proof is afforded, an allowance should be given.

53. *Deductions on account of taxes paid.*—No deduction is permissible in computing the income, profits or gains on account of any taxes or rates paid in respect of such income, profits or gains except that a local rate or tax which is payable irrespective of whether profits are made or not (see paragraph 48) is to be allowed as deduction from income from business. Section 10 (2) (viii) of the Act allows as a deduction from business profits sums paid on account of land revenue, local rates or municipal taxes in respect of premises used for the purposes of a business. This specific provision has been inserted because the local rates paid on account of such premises are usually in the nature of a payment for services rendered (e.g., by supply of water, conservancy arrangements, etc.), but that allowance is closely restricted to a local tax or rate levied *in respect of the premises* used for the purposes of the business. No deduction is allowed for any other local rate or tax such as, for example, local taxes varying according to the income or profits.

of a business. Nor is any deduction on account of a local rate or tax on property allowed from the annual value of property which is taxable under section 9. Similarly no allowance is permissible on account of income-tax or super-tax paid by an assessee. Where property, profits or gains are liable to taxation in other countries or by other authorities in British India all these authorities are taxing the same property or profits for different purposes. In the Patna High Court, Case No. 102 of 1920 in the matter of Raja Joyti Prasad Singh Deo of Kashipur (I, Srinivasan's Tax Cases, page 103), it was held that the amounts paid for cases by a person deriving an income from rent of collieries and from royalties on the amount of coal raised from the collieries are not to be deducted in computing the amount of his assessable income, and it was clearly stated that "the payment of a tax which is conditional on the making of an income and which has to be calculated on the amount of such income after it has come into existence cannot be said to be expenditure for the making of such income".

Again in the Madras High Court, Case No. 11 of 1920, Chief Commissioner of Income-tax, Madras, *versus* The Eastern Extension Australasia and China Telegraph Co., Ltd. (I, Srinivasan's Tax Cases, page 120), it was held that in computing the profits of a non-resident company under the provisions of rule 33, the taxes payable in other countries in respect of the profits of the company are not to be deducted.

54. *Taxation of a Hindu undivided family.* (Sections 14 and 25-A.)—A Hindu undivided family is treated as a separate entity for income-tax purposes. It is taxed like an individual at a graded scale according to its total income and no account is taken of how that income is distributed amongst the individual members when such individual members are assessed to income-tax or super-tax in respect of their separate income. This applies even in cases where the amount of the income of the Hindu undivided family is less than Rs. 2,000 and is, therefore not liable to taxation in the hands of the manager of the family. The same remarks apply to super-tax.

Section 25-A will only apply if a member of a Hindu undivided family *claims* that it has become divided. If, however, the family prefers to go on being assessed as undivided though really divided, the Income-tax Officer has no authority to act under this Section. If the Income-tax Officer has not passed an order under section 25-A (1) in respect of a Hindu family hitherto assessed as undivided, such family shall be deemed to continue to be a Hindu undivided family.

The taxation of the income of a Hindu undivided family thus differs from the taxation of the income of an unregistered firm since where the profits of an unregistered firm are not liable to taxation in the hands of the firm, such profits are taxed in the hands of the individual partners both for the purposes of income-tax [section 14 (2) (b) and section 16 (1)] and super-tax (section 55

proviso), and where the profits are taxed in the hands of the unregistered firm, the share of such profits of each partner is included in his "total income" for the purpose of determining the rate at which he shall pay income-tax on his other income [section 16 (I)].

Where the income, profits and gains of a member of an undivided Hindu family consist of his personal earnings and acquisitions by his own exertions, they must be treated as his self-acquired property and not as joint family property, unless they flow from a special education at the expense of the joint family over and above the ordinary education suitable to his position as a member of the joint family, or from the employment in business or otherwise of the joint funds.

Khojas (and Cutchi Memons), not being Hindus, joint families composed of such persons are not Hindu undivided families for the purposes of the Act.

Jain and Sikh undivided families should be treated as Hindu undivided families, unless in any particular case, the assessee claim that they should not be treated as such. Where such a claim is put forward, it is for the assessee to prove the existence of some special custom or practice applicable to the family in question which would justify its not being treated as a Hindu undivided family.

For the method of serving notices or requisitions on a Hindu undivided family see paragraph 104.

55. *Taxation of a firm.*—For the difference between a registered and unregistered firm see paragraph 10.

While income-tax is leviable on the profits of a registered firm at the maximum rate (see Finance Act), and while under section 48 (2) a member of a registered firm is entitled to get a refund in cases where the maximum rate is greater than the rate applicable to his total income, it is desirable that, so far as possible, such refunds should be avoided.

The question of refund does not arise if the personal income of none of the partners liable to Indian Income-tax including his share in the Firm (whether he be resident or non-resident) is less than Rs. 40,000. In other cases, if each of the non-resident partners is a British subject or a subject of an Indian State and produces with his individual return of income adequate evidence of the amount of his foreign income that is to be taken into account in determining his claim to a refund, and all the resident partners (if any) file returns of their individual incomes, the Income-tax Officer, on being satisfied that the whole of the profits of the registered firm are accounted for in these personal statements, should charge the partners direct at the rate appropriate to their total income.

In view of sub-section 5 of section 48, this procedure cannot be applied to the following cases:—

- (1) Firms in which one partner at least is a non-resident foreign subject (other than a subject of an Indian State) to whom no refund can be due in any case.

- (2) Firms in which one partner at least is a non-resident British subject or subject of an Indian State to whom a refund may or may not be due—that is, who has not yet produced adequate evidence as to the amount of his foreign income.

(3) Firms in which in addition to non-resident partners there is any resident partner who has not filed a return of his total income.

The demand notice in respect of the profits of such firms must be addressed to the firm, and no individual assessments should be made on, or demand notices issued to the partners in respect of their shares of the profits of the firm. The position will be just as though the firm were an *unregistered firm*. If a partner has other income he will be assessed on that separately, and of course his total income will include his share of the profits of the firm. The share due by each partner of the income-tax on the profits of the firm should be intimated to him informally, with an indication that this is done merely as a matter of convenience, and does not affect the liability of the firm as such for the income-tax on the whole of its profits. Separate assessments on partners will also have to be made for super-tax, if necessary.

For the method of setting-off a loss of profits of a registered firm against other income of a partner see paragraph 72.

In computing the total income of a member of a registered firm or ~~unregistered firm~~ for the purposes of income-tax or super-tax there should be included in that total income "such an amount of the profits or gains of the firm as is proportionate to his share in the firm". This particular phraseology has been adopted in section 14 (2) (b) and in the proviso to section 55 in order to make it clear that it is the proportionate share of a partner in the whole of the assessable profits of a firm that is to be taken into account in determining his total income, and not merely the amount that he removes from the possession of the firm. Some partnership deeds, for example, provide that the partners cannot remove more than a certain proportion of the profits in any year or, again, that a certain proportion of the profits must be distributed in charity. It is now made clear in the Act that it is the whole of his proportionate share in the total assessable profits of the firm that is to be taken into account and that that proportionate share cannot be reduced by any consideration of how those profits are utilised.

For the method of dealing with a change in the constitution of a firm see paragraph 74.

For liability in cases of discontinuance of a business owned by a firm see paragraph 75.

For the method of serving notices or requisitions on a firm see paragraph 104.

55-A. Taxation of associations of individuals—Section 14 (2) (c) and Section 23-A.—An association of individuals, other than a firm, Company or a Hindu undivided family, is liable to income-tax and super-tax as if it were an individual. Tax is not payable by an assessee in respect of any sum which he receives as his share of the profits or gains of an association the profits or gains of which have been assessed to income-tax, but such sum will be

included in his "total income" to determine his liability to income-tax and the rate applicable to him.

56. *Exemptions on account of life insurance.* (Section 15).—Under the provisions of section 7 (1) proviso and section 15 an abatement of income-tax is given, after the assessment of the tax has taken place, on such portion of an assessee's income as may have been—

- (i) deducted from his salary under the authority and with the permission of the Government for the purpose of securing a deferred annuity to him or making provision for his wife or children [section 7 (1) proviso];
- (ii) paid by him to an Insurance Company in respect of an insurance or deferred annuity on his own life or on the life of his wife; or
- (iii) paid by him as a contribution to any of the provident funds mentioned in paragraph 20.

Provided that the total amount on which an abatement will be permitted under this provision may not exceed one-sixth of the total income of the assessee.

Contributions to the Widows, Orphans and Old Age Contributory Pension Fund, 1925, are exempt from income-tax since they are deducted under the authority of Government from the salaries of the soldiers concerned for the purpose of securing to them a deferred annuity and of making provision for their wives and children.

Compulsory allotments from a soldier's pay made to his wife in England under Article 886 of Royal Warrant for Pay, are exempt from income-tax since they are deducted under the authority of Government for purposes of making provision whether present or future for the wife.

Deductions at source on account of contributions made by an officer to provide passage money for his widow and orphans under the Indian Military Service Family Pension Resolutions and the Indian Military Widows and Orphans Funds Regulations are exempt from income-tax as the contributions are in the nature of life insurance premia. Under the rules, a certificate of health is required before an officer can contribute and the contribution which he has to pay is regulated according to the age of the officer concerned.

Out of the premia paid in respect of a policy that covers the risks of sickness and accidental injury and also the risk of death, only so much as is attributable to the risk of death (from whatsoever cause) is admissible as deduction from the income liable to tax. The portion of the premia so attributable should be settled in consultation with the Insurance Company concerned, whose formula should be accepted unless there appears to be some strong ground for modifying it.

No rebate of income-tax is allowed on any sum withdrawn by an assessee from his Provident Fund in order to pay his life insurance premium.

Rebate of income-tax in respect of a premium paid on account of life insurance is admissible to a partner of a registered firm individually whose income is taxed at source, in addition to the refund of tax to which he may be entitled under section 48.

It is to be particularly noted that the insurances in respect of which this concession is granted are insurances *on the life of the assessee himself or of his wife*, and not any other form of insurance whatsoever. The solitary exception is in the case of a Hindu undivided family in the case of which insurances are permissible *on the life* of any male member of the family or of the wife of any such member and not merely on the life of the head or manager of the family.

For the purpose of an abatement claimed by an assessee under this section insurance premia payable in sterling should be converted at the rate of exchange on force on the day on which the premium payment was made in cases where the assessee is unable to state the actual cost of remittance.

A claim for abatement under this section must, if the payment is made otherwise than by a deduction from salary, be supported either—

- (a) by the original receipt of the Insurance Company or fund;
- (b) where the claim is made by a servant of the Government or of a local authority, by a copy of the original receipt presented along with the original to the officer who pays the salary and attested by that officer who should, after such attestation, return the original with a note endorsed upon it that it has been produced and allowed for, a copy being attached to the bills sent with the list of payments; or
- (c) by a duplicate receipt or certificate of payment given by the Insurance Company or provident fund, provided a certificate is given that the original receipt is lost or is not forthcoming.

Where the Income-tax Officer is satisfied that none of the above prescribed documents can be produced without an amount of delay, expense or inconvenience, which, under the circumstances of the case, would be unreasonable he may accept such other proof of payment of the premium as he may deem sufficient.

Abatement on account of insurance may be given effect to by the person deducting income-tax from salary at the time of payment under section 18 (2).

Where the payment on account of insurance premia, etc., is not claimed at the time when tax is deducted from salary, it may be

claimed in the assessment and in the return given by assessee under section 22 (2).

While strictly speaking abatements on account of insurance premia should only be made in assessing the income of the year in which the premia were paid, the rigid enforcement of this interpretation is likely to cause considerable inconvenience to assesseees who desire that the abatement should be given effect to when tax is deducted from their monthly salary, particularly in cases where the premia have been paid to foreign companies towards the end of a financial year and the receipt for the premia are not forthcoming until the following financial year. In such cases abatements of insurance premia may be allowed by officers responsible for deducting income-tax from salaries under section 18 (2) at the time of payment of the salary provided that the premia in respect of which abatement is claimed have been paid within six calendar months ending with the close of the month for which the salary is drawn.

While the officers responsible for deducting income-tax at the source under section 18 (2) of the Act should allow an abatement where claimed, they need not carry out a check to see whether the abatement claimed under this section exceeds one-sixth of the salary of the officers concerned. This can be looked after by the Income-tax Officer to whom returns are furnished under section 21. The deducting authority should however see that claims for such abatements are made within the period prescribed.

It is to be particularly noted that this abatement does not apply to super-tax, section 15 being made inapplicable to super-tax by section 58.

57. Tax deducted or collected at source to be included in income.—Section 16 (2) (which provides that the amount received by a shareholder in a company by way of dividend shall be increased by the amount of income-tax payable by the company in respect of the dividend received) and section 18 (4) (which provides that where income-tax is deducted at the source from salaries and interest on securities, the tax so deducted shall, for the purposes of computing the income of an assessee, be deemed to be income received) have been inserted in order to make it clear that in the cases of taxation at the source and of the deduction of tax at the source it is the gross amount of the income (*i.e.*, including the tax deducted) which is to be taken into account in determining the rate at which an assessee shall be liable to income-tax on the rest of his income and also his income for liability to super-tax.

58. Restriction of income-tax where margin of income above a certain limit is small. (Section 17.)—Section 17 is designed to remedy the anomaly which previously existed where an assessee with an income just in excess of one of the stages in the Finance Act and therefore liable to pay income-tax at a higher rate than if his income were just below that stage, found himself, after the

payment of the tax, worse off than he would have been, had his taxable income been below that stage.

Illustration.—

Income.	Tax payable if section 17 had not been passed.	Tax payable under section 17.
1,999	Nil	Nil
2,000	52-1	1-0
2,020	52-10	21-0
4,999	130-3	130-3
5,000	156-4	131-3

The marginal relief allowed under section 17 and the exemptions referred to in section 7 (1), proviso to section 8, and section 15 (1) should not be regarded as alternatives. The correct method of working the two sections concurrently is as illustrated in the following example:—

If a man's total income is Rs. 5,010 and he pays Rs. 100 as Insurance premia, the tax he should pay is that on Rs. 4,999 *minus* Rs. 100 (=Rs. 4,899) at five pies *plus* Rs. 11. The tax payable will be the same if his total income is Rs. 5,010 of which Rs. 100 is derived from tax-free securities or from an unregistered firm that has been assessed to income-tax, but if the Rs. 100 were derived from a registered firm, or from dividends the total tax to be suffered would be Rs. 141-3-0 against which credit would have to be given for the tax indirectly suffered on the share of the firm's income or the dividend, Rs. 9-6-0 so that the nett sum payable would be Rs. 131-13-0.

The following points should be borne in mind in applying section 17 where a portion of the assessee's income is derived from an unregistered firm that has paid income-tax:—

- (i) Income-tax is not "payable" by a partner in a firm on his share of the firm's income.
- (ii) Relief is to be given to an assessee in respect of the "income-tax payable by him".
- (iii) Section 17 is to be applied (a) "where necessary," (b) in order to "reduce" the tax and (c) so that the result of an assessee's total income exceeding a sum after which the rate of tax rises, shall not be that the extra tax due to the rise in the rate is greater than the excess of the total income over the maximum sum liable to the lower rate. The section is not to be applied where it is not necessary to do so, that is, where the result of applying it would not be to reduce the tax.

59. Deduction of the tax at source.—Section 18 of the Act provides for the *deduction of tax at the source* as distinguished from *taxation at the source* referred to in paragraph 11. It provides for the tax being deducted by the persons responsible for making pay-

ments of "salaries" or "interest on securities" before such payments reach the hands of the recipients. The tax so deducted is paid over by the persons making the deduction to the credit of the Government of India within the period specified in rule 10 along with a statement giving the details shown in rules 11 and 12. Such deductions of income-tax are under sub-section (5) of section 18, treated as payments of income-tax on behalf of the persons from whose income or interest the deduction was made and credit is given to them in the assessment of their income if an assessment is made of their other income. The form of return of income that has to be made under section 22 (2) prescribed in rule 19, therefore, provides for the tax previously charged upon the income being set off against any additional charge, while section 48 (3) provides as an alternative for a refund in cases where the rate deducted is greater than that applicable to the total income of the assessee.

Section 18 (2) (a) of the Act provides that all payments on account of salary made out of India by and on behalf of Government shall be included in the amount on which tax is deducted at source in India. All leave salary paid in the United Kingdom or a Colony to Government servants on leave in the United Kingdom or the Colony has been exempted from tax, *vide* paragraphs 17 and 27. Any sterling overseas pay or other sum that may be paid in the United Kingdom or a Colony to an officer on leave in the United Kingdom or the Colony on account of his salary while on leave is, therefore, exempt from income-tax. The fact that a part of the leave salary is drawn in India does not affect the exemption of the balance drawn in the United Kingdom or a Colony. The part of the leave salary that is paid in sterling in the United Kingdom or a Colony to an officer on leave in the United Kingdom or a Colony should not, therefore, be included in the income from which tax is deducted at source by the officer paying him the rupee portion of the leave salary in India. The same principle applies to other payments falling under "salaries" within the meaning of section 7 of the Act made partly in India and partly out of India and exempt under any notification issued under section 60 of the Act. The salary paid in the United Kingdom or a Colony to an officer on duty in the United Kingdom or a Colony is exempt irrespective of whether it includes sterling overseas pay or not. So also vacation salaries paid in the United Kingdom or a Colony when on vacation therein.

Any person required to make a deduction under section 18 who fails to do so, may himself, under sub-section (7) be deemed to be personally in default in respect of the tax while he is also liable to be prosecuted for an offence punishable under section 51 (a).

Persons making deductions at the source are indemnified for the deduction under section 65.

The provisions of section 18 do not apply to super-tax (section 58).

The provisions of this section obviously cannot apply to cases where the payments are made outside British India as, for example,

the payment of "interest on securities" in Indian States or in foreign countries or the payment of "salaries" by foreign employers to residents in British India. It is for this reason that section 19 of the Act specifies that in any case where income-tax has not been deducted in accordance with the provisions of section 18, the tax is payable by the assessee direct. This provision covers, not only cases where the employer or the person paying "interest on securities" does not reside in British India, but also cases where owing to an assessee's salary being less than Rs. 2,000 income-tax has not been deducted.

60. Deduction at source of tax on "salaries".—The Act of 1918 provided that where a payment was a non-recurring payment, the tax should be deducted at the rate appropriate to that particular sum as if it were the whole of the assessee's income, and that where a payment was a recurring payment, the tax should be deducted on the assumption that the total income of the assessee amounted to twelve times the recurring sum. As these provisions gave rise to a considerable amount of unnecessary trouble to assessees and their employers as well as to income-tax authorities, section 18 (2) of the Act now provides that deductions from salary shall be made at a rate which should approximate as closely as possible to the rate appropriate to the total assessable income of the assessee under the head "salaries," and it further empowers the person deducting income-tax from "salaries" to rectify, in subsequent deductions, mistakes made in previous deductions. Thus, if an employe's regular monthly salary is Rs. 500, the tax would be deducted by the employer at the rate appropriate to Rs. 6,000 but if such an employe received a commission or bonus or arrears of pay or officiating allowance amounting to Rs. 5,000, the employer is empowered not only to make deductions in future at the rate appropriate to an income of Rs. 11,000, but also to make up the deficiency in previous collections owing to the lower rate having been applied.

Salaries are sometimes paid or adjusted annually. Meanwhile, the employee may draw (and even overdraw) against the salary due or that will become due to him. If employers claim to deduct as business expenses the sums thus drawn by their employees, this can only be done on the ground that the sums represent salary and therefore, tax should be deducted at source from all such sums. When it is found that tax has not been deducted, the employee should be assessed direct on all such sums if they have been allowed to the employer as business expenses. If they are not so allowed, they need not be taxed in the employees' hands whether by deduction or by direct assessment till the drawings are adjusted against salary actually earned and are claimed as business expenditure by the employer.

The obligation to deduct income-tax under this head now applies to *all employers*.

For the power of an employer to allow abatements on account of insurance premia see paragraph 56. As regards private employers,

it may be noted that it is open to them to make these allowances on account of insurance premia or not according as it may suit the convenience of themselves and their employes as, if such rebate is not given when the tax is deducted at the source, it may be claimed by the employé in the following year either as a refund or a set-off against the amount due by him if he is assessed under section 23.

As regards the meaning of the word "salaries" see paragraph 25.

For the deduction from "salaries" of arrears of tax due see paragraph 91.

61. Deduction at source of tax on "interest on securities".— (See paragraph 28.) The only securities of the Government of India (other than income-tax free securities) from the interest on which income-tax is not deducted in advance are Treasury Bills.

As the person paying interest on securities has no information regarding the total income of the person to whom the payment is made, section 18 (3) provides that deductions of income-tax from "interest on securities" shall be made at the maximum rate fixed by the Finance Act. Where the total income of the person receiving the interest on securities is less than the income to which the maximum rate applies, he is entitled, under the provisions of section 48 (3), to claim a refund. In order to simplify the procedure in connection with refunds, section 18 (9) makes it obligatory upon the person deducting income-tax from the interest on securities to issue to all security holders a certificate in the form prescribed in rule 13 or 13A specifying the amount of tax deducted from the interest and the rate at which it has been deducted. The form of certificate attached to rule 13 is suitable for Government securities only, while, that attached to rule 13A provides for securities issued by local authorities and companies and covers the case of securities payable to bearer. It frequently happens, however, that security-holders hand over their securities and bonds to their bankers for collection. In that event the certificate given by the person deducting the income-tax from the security would be given to a bank for a whole block of securities. In such a case the Income-tax Officer should accept a certificate from the bank in the following form, and act upon it as if it were a certificate received direct from the persons deducting income-tax from the security:—

"We hereby certify that interest on the various securities specified on the back hereof was collected by us on behalf of _____ and that we received payment or were credited with the proceeds thereof (less income tax) as stated on the other side amounting to Rs. _____

The securities specified are covered by certificates issued to the Bank under section 18(9) of the Income-tax Act, 1922.

Signature of Banker.

Address.

Date.

To be signed by the claimant.

I hereby declare that the securities on which interest as above specified has been received are my own property and were in the possession of at the time when income-tax was deducted.

Signature.

Date.

(N.B.—The securities to be produced when required in support of any claim.) "

REVERSE OF FORM.

Schedule of securities.

No. and description of securities.	Date of payment of interest after deduction of income-tax.	Period for which interest has been paid.	Amount of interest (less income-tax).	REMARKS.

A person who has other income liable to tax may, instead of claiming a refund, get the amount set-off against the amount due from him in the assessment made on him under section 23 by filling up the form prescribed in rule 19.

The certificate under section 18 (9) must be taken by the Income-tax Officer of the area in which the claimant or assessee is assessed or resides (see rule 39) as conclusive evidence of the payment of the tax, both where a refund is claimed in cash and where a set-off against the tax assessed on other income is claimed.

While these arrangements will facilitate the making of refunds, it is desirable that refunds should be avoided as far as possible. There are, for example, certain institutions, authorities and funds, the income of which is exempt from tax under the provisions of section 4 (3). Similarly there are persons whose assessable income is less than Rs. 2,000 and who are not, therefore, liable to tax. There are other cases where the Income-tax Officer may be satisfied that the income of a holder of security while liable to tax is not likely to fluctuate so widely as to alter the rate appropriate to the total income. In such cases the Income-tax Officer may issue a certificate authorising the person paying the interest on securities to make no deduction of tax or to deduct tax at a lower rate than the maximum. The certificates will be granted to residents outside British India by the Income-tax Officer, Non-residents Refund Circle, Bombay, and to others by the Income-tax Officers concerned. Such a certificate might be in the following form:—

Income-tax Office:

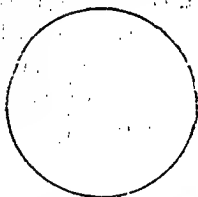
Dated

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To

I hereby authorise (1)

to deduct income-tax at the rate of (2) _____ pies in the rupee
when paying the interest on the following securities to their present holder
(3) _____ . This authorisation will remain in force until
cancelled by me.



Description of securities.

(1) Name and address of person paying the interest. (2) Rate of Income-tax sanctioned. (3) Name of person receiving interest.

Income-tax Officer.

Such certificates when issued should remain in force until they are cancelled and should not be required to be renewed annually.

When the owner of a security to whom a certificate is granted according to these instructions has endorsed the security to his bank for collection of interest, the officer responsible for paying the interest regards the bank as the real holder of the security and takes no cognisance of any arrangement that may have been entered into between the real owner of the security and the bank, with the result that the certificate standing in the name of the real owner

of the security granted by the Income-tax Officer becomes inoperative. To avoid the possibility of paying officers refusing to act on the exemption certificate in such circumstances, Treasury Officers have been instructed to act on such certificates, when presented in respect of securities that have been endorsed to banks for collection of the interest, if together with the exemption certificate a declaration by the bank is presented to the effect that the security continues to be the property of the person named as the owner in the exemption certificate.

Applications for refund of income-tax from residents of an Indian State who own securities whether of the Government of India, a local authority or a Company or hold shares in a Company in British India should, as in the case of residents outside India, be made to the Income-tax Officer, Non-Residents Refund Circle, Bombay. The Income-tax Officer will, however, allow a claimant who resides in an Indian State, the option of receiving payment of the refund through the Political Officer in that State, that is to say, the refund voucher that will be issued by the Income-tax Officer will be made payable, if the person applying for the refund so desires, at the Political Treasury of the Government of India in the particular Indian State, or if there is no treasury under the control of the Political Officer, at the prescribed British Indian Treasury.

61-A. Securities held by Indian States or by Ruling Princes and Chiefs.—An Indian State is not assessable to any income-tax or super-tax except under the Government Trading Taxation Act, 1926 (III of 1926), that is to say, unless the State carries on a trade or business. Interest on securities held by Indian States is, therefore, not taxable. Interest on *Government* securities alone held by Ruling Princes or Chiefs as individuals, that is, not as the property of the State, is taxable under the law, but it has been exempted under section 60 of the Act (item No. 5-A of paragraph 17). It is, therefore, no longer necessary that the authorities responsible for the payment of interest on Government securities should be supplied with information enabling them to discriminate between those that are the property of the State and those that are the property of the Ruler; but it is still necessary that such authorities before paying the interest without deducting income-tax should have evidence that the income-tax authorities are satisfied that the particular security in question is eligible to exemption on one or other of the grounds already mentioned. No such evidence is required where Government securities are held in the names of the Rulers of Indian States in the special non-transferable form prescribed by Rule 38 of the Indian Securities Rules, 1920; but in other cases, a State or its Ruler claiming the payment of interest free of income-tax should forward a certificate that it is, or he is, the owner of the securities in question through the Political Agent or Resident of the State (a) if the security is in the form of a stock certificate, to the Income-tax Officer within whose jurisdiction is situated the Public Debt Office which issued the stock certi-

ificate; (b) if the security is in the form of a promissory note or a bearer bond,—

(i) when the interest is payable at a Public Debt Office or a treasury in British India, to the Income-tax Officer within whose jurisdiction such Public Debt Office or treasury lies; and

(ii) when the interest is payable at a treasury outside British India, to the Income-tax Officer, Non-residents Refund Circle, Bombay.

The Income-tax Officers mentioned will in turn grant exemption certificates in the form prescribed in paragraph 61. The exemption certificates will be issued in duplicate in regard to securities in the form of stock certificates or Promissory notes; one copy being sent to the State or the Ruler concerned and the other for purposes of registration direct in the case of stock certificates to the Public Debt Office of domicile where the stock certificate is registered and in the case of Promissory notes to the Public Debt Office or the Treasury Officer responsible for paying interest thereon.

As regards Bearer Bonds, the certificates will be issued in triplicate, the original being sent to the State or the Ruler concerned, the duplicate copy to the treasury responsible for payment of coupon relating thereto and the triplicate copy to the Public Debt Office within whose sphere such treasury is situated.

The exemption certificate pertaining to securities in the form of promissory notes or bearer bonds given to the State or the Ruler concerned should be produced before the Public Debt Office or the treasury each time the promissory note or the coupon attached to the bearer bond is presented for payment of interest.

In the case of stock certificates or promissory notes, an exemption certificate will remain valid until either

(a) it is cancelled by the Income-tax Officer, or

(b) the security is transferred to some other person than the State or the Ruler in whose name it stood at the time when the certificate was issued, or

(c) the security is changed from one form into another, *e.g.*, from a stock certificate into promissory notes or bearer bonds or *vice versa*, or is renewed.

In the case of bearer bonds, a fresh certificate will be required to cover each interest payment.

The above orders refer to *Government* securities only, the interest on which is exempt in the case of Indian States as well as Indian Princes or Chiefs as stated above. As regards other securities, *viz.*, those of local authorities and companies referred to in section 8 of the Act, only Indian States are exempt. In order to have exemption certificates for such securities, the State concerned will similarly send a certificate stating that it is the

payment or were credited with the proceeds thereof amounting to Rs.

The dividends specified are covered by Certificates issued to the Bank under section 20 of the Income-tax Act, 1922.

IMPERIAL BANK OF INDIA, DEPOSITORS' DEPARTMENT,

Calcutta

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Superintendent.

Description of shares.	Holding.	Period.	Date of declaration of the dividends.	Date of receipt of dividends.	Amount of dividends.

To be signed by claimant.

I hereby declare that the shares on which dividends as above specified have been received are my own property, and were in the possession of the Imperial Bank of India, Calcutta, at the time when these dividends were realized.

Signature

Date

N.B.—The safe custody receipts and the Bank's pass book to be produced in support of any claim.

63. Certificate by a company to shareholders receiving dividends. (Section 20.)—The profits of a company are charged to income-tax at the maximum rate irrespective of what the amount of the profits may be (see Finance Act), and the shareholder of a company is, under section 48 (1) of the Act, entitled to claim a refund on proof to the Income-tax Officer that the maximum rate of income-tax is greater than the rate applicable to his "total income". In order to get such a refund, he must produce the certificate required by section 20 and prescribed in rule 14.

Certificates should however be accepted if they supply all the prescribed particulars, even though they may not be identical in phraseology or arrangement with the statutory form of certificate given in Rule 14. The shareholders claiming refunds in respect of dividends paid out of profits of which a part is not liable to Indian income-tax, will only be able to enter approximate figures

in the refund application, and in the return accompanying it, in respect of the amount of tax paid by the company on the dividends, and the amount of refund due; but this should not prejudice the claimants in any way. The Income-tax Officer will accept the certificate but will apply the correct percentage. Any certificate will be accepted that is otherwise in order if it shows *either* that the entire profits of the company are liable to Indian income-tax or that *only part* is liable—irrespective of what the part may be. Duplicates of certificates should be accepted if the claimant satisfies the Income-tax Officer who has to sanction the refund that the dividends in respect of the tax on which the refund is claimed had actually been paid to the claimant, and if the Income-tax Officer has no reason to believe that a refund has already been granted in respect of the same dividends. Duplicates should not be accepted unless a convincing reason is given for not producing originals. Duplicates may be accepted, for example, if it is alleged that the originals have been lost and the Income-tax Officer has no reason to doubt the statement; on the other hand, duplicates should not be accepted if the originals can be produced though after some delay. As in the case of the certificate regarding tax deducted from interest on securities mentioned in paragraph 61, where a share-holder in a company is assessed to income-tax on account of income in his own hands, he may, instead of claiming a refund, ask that any rebate to which he is entitled should be set-off against the tax which he is personally liable to pay, and the form of return of income for individuals prescribed in rule 19 permits of this set-off.

The form of the certificate prescribed in rule 14 differs from the form of the certificate prescribed in rule 13 for income-tax deducted from interest on securities in that it simply contains a statement that income-tax has been or will be duly paid by the company and that the dividend was declared on a certain date. It contains no statement as to the rate at which tax has been or will be levied or as to the amount of tax paid or to be paid. The reason for this is that in many cases it is impossible to state at what rate tax has been or will be levied on the particular profits out of which dividends are paid. The dividends of a company may be distributed from profits made during the course of a financial or commercial year before the rate of tax is known, or may be distributed from reserves maintained for the equalisation of dividends and composed of profits earned in previous years. It should, therefore, be assumed by Income-tax Officers in connection with these particular certificates that tax has been levied in respect of the dividends at the rate current on the date on which the dividends were *declared* since this is the rate to be taken into account in dealing with a claim for a refund under section 48 (1).

The form of certificate also provides for cases such as that of the tea companies which do not pay income-tax on their entire profits and gains distributed as dividends.

The amount of income-tax so assumed to be payable by the company in respect of the dividend declared has, under the provisions of section 16 (2), to be added to the net dividend received in calculating the total income of the individual shareholder.

The following instructions may with advantage be followed by persons granting certificates prescribed by section 20 of the Act:—

- (1) The statutory form of certificate of deduction of income-tax prescribed by rule 14 of the Indian Income-tax Rules should invariably be used.
- (2) Either (a) the certificate should be printed on the same sheet of paper as the actual warrant with a line of perforation to permit of its being detached, or (b) the dividend warrants should be machine-numbered, while every certificate relating to a particular dividend should be given the same number as the corresponding warrant. There are cases in which Banks collect dividends on behalf of their constituents and companies send the banks consolidated dividend warrants in payment of all the dividends due in respect of the block of shares for which the bank is acting, and at the same time send separate certificates for the share-holders by whom the shares are owned. In such a case if certificates are issued to a Bank for say twenty constituents, relating to dividend warrant No. 1, the certificates should be numbered by hand 1/1, 1/2, 1/3 to 1/20.
- (3) The practice adopted by certain companies of either attaching red slips to the certificates drawing the attention of recipients to the need for their careful preservation for a year or two or of printing this caution in red ink on the face of the certificate may be generally followed.
- (4) A note should be printed on the certificate to the effect that share-holders may claim refund of tax under section 48 (1) of the Act in respect of their dividends if their personal rate of tax is less than the maximum rate.

64. Annual return of employes. (Section 21.)—Under section 21 read with rules 15, 16 and 17 a return in the form prescribed in rule 17 must be made of all employes deriving an income of Rs. 2,000 per annum or over by the Government officers mentioned in rule 15, by every private employer and by, in the case of local authorities, companies or other public bodies or associations, the “principal officer” (see paragraph 7) “or the prescribed person”. The provision that in the last mentioned case the return is to be made either by the principal officer or “the prescribed person” is designed to avoid difficulties experienced particularly in the case of companies, owing to the provision of the Act of 1918 which required that the return should always be made by the “principal officer”. Where a company, for example, has got several places of business, it may be more convenient for the company that the returns under this section should be made not by the principal

officer at the headquarters of the company but by officers at different branches, since this particular return has as a rule to be made to the local Income-tax Officer, *i.e.*, to the Income-tax Officer of the place where the employes happen to reside. The liability for making this return remains under section 21 with the principal officer unless another person is prescribed in the case of particular companies. Such a person must be prescribed by means of a rule made by the Central Board of Revenue [see section 2 (10) and section 59 (2) (e)]. The object of the return is to enable Income-tax Officers to see that the tax has been deducted at the source under section 18 (2), to arrange for adjustments where the collections at the source have not been made correctly and to assess "salaried" persons under section 23, whether the tax has been collected at the source or not, where the salaried persons have other income than "salary".

This section prescribes that the return must be delivered to the Income-tax Officer but does not state to what particular Income-tax Officer the return should be made. Every Income-tax Officer has, under the provisions of section 64 (4), all powers conferred by or under the Act on an Income-tax Officer in respect of any income accruing or arising or received within the area for which he is appointed, irrespective of whether the particular income is assessed by him or not. In most cases it is convenient that this return should be made to the Income-tax Officer of the area in which the employes reside, but in some cases it may be more convenient that the return should be made to the Income-tax Officer of the area in which the headquarters of a wide spread business is situated. It is for the Income-tax Commissioner in each doubtful case to decide to what particular Income-tax Officer this return should be sent.

The return prescribed under this section is the return of all employes who during the period of 12 months ending 31st March last were in receipt of salary of not less than the prescribed amount of Rs. 2,000, and the return must be furnished to the Income-tax Officer in the proper form before the 1st of May. The obligation to make this return is a statutory one and no preliminary notice or request from the Income-tax Officer is required. Failure to furnish this return is punishable under section 51 (c) of the Act.

65. Return of income by companies. [Section 22 (1).]—The return of the total income of a company must be furnished to the Income-tax Officer before the 15th day of June in each year in the form prescribed in rule 18, which also contains the form of the verification of such return. The obligation to make this return is a statutory obligation upon the "principal officer" (see paragraph 7) of the company, and it is not necessary that the Income-tax Officer should send any preliminary notice or request to the company or the principal officer concerned. Failure to furnish this return is punishable under section 51 (c) of the Act.

66. Return of income by persons other than companies. [Section 22 (2).]—The form of return of total income of individuals.

firms or Hindu undivided families is prescribed in rule 19 which also prescribes the form of the verification of such return. In this case no statutory obligation rests upon the individual, firm or Hindu undivided family to make such a return until a notice has first been served by the Income-tax Officer requiring such a return. The notice must allow a period of 30 days for the furnishing of the return. If, however, on receipt of such notice, the return is not furnished within due time, such failure to make a return is punishable under section 51 (c) of the Act.

A return under section 22 on which the word "loss" has been written, without any figures, or in which 'nil' has been entered against each item, is not a valid return (*cf.* Calcutta High Court case *Ram Kissendas Bagri versus Commissioner of Income-tax, Bengal*, II Srinivasan's Tax Cases, p. 324). If, therefore, such a return is filed by any person, the Income-tax Officer can proceed after issuing a notice under section 22 (4), and making enquiries, to assess him under section 23 (4) if he finds that such a course is justifiable.

67. Consequences of failure to furnish a return of income.—Where a return is not furnished in due time, whether it be a statutory return which companies are required to furnish by the 15th of June under section 22 (1), or whether it be the return which other persons are required to furnish under section 22 (2) on receipt of a notice from the Income-tax Officer calling upon them to do so, the person failing to make the return is not only liable to be prosecuted under section 51 (c) but no appeal lies under the proviso to section 30 (1) of the Act against any assessment made by the Income-tax Officer upon the company or other person failing to make a return. In the case of a registered firm, the Income-tax Officer may also cancel its registration but not until 14 days have elapsed from the issue of a notice by the Income-tax Officer to the firm intimating his intention to do so.

Failure to make a return, therefore, deprives the person at fault of any remedy whatsoever against the assessment subsequently made, except the remedy specified in section 27. Under that section a person failing to make a return may within one month after the receipt of a notice of demand of the tax apply to the Income-tax Officer, and if he satisfies him that he was prevented by sufficient cause from making the return, the Income-tax Officer shall cancel the assessment, refund any tax already paid at once without waiting for an application for refund from the assessee, and proceed with the case *de novo*. Should the Income-tax Officer refuse to re-open the case under section 27, the assessee may appeal under section 30 to the Assistant Commissioner, but if the Income-tax Officer does re-open the case, whether of his own accord on an application under section 27 or under the orders of the Assistant Commissioner under section 31 on an appeal, and the assessee fails again to make a return, the same provisions apply and no appeal lies against the assessment. Section 22 (2) makes it *obligatory*

upon the Income-tax Officer to call for returns from all assesseees, and as the success of the administration of the Act is largely dependant upon assesseees making returns of their income, every effort should be made to get every assessee to file a return. At the same time it is desirable that, with due regard to the fiscal interests of the Government, all income-tax officials should administer the Act in a sympathetic spirit, and in particular should give assistance to assesseees if they find any difficulty in filling up their returns.

Sub-section (3) of section 22 is a new provision the effect of which is that where a person has not furnished a return in due time or have furnished a return discovers any omission or wrong statement therein, he may furnish a return or a revised return before the order of assessment is passed so that where such a return or revised return has been made the assessee may not be prosecuted for failing to submit a return in due time under section 51 (c) and may not be penalised under section 28 for making a wrong statement in the original return.

← *of false returns, concealment of income*
 r section 26A, or sub-section (2) of section 33-A is liable to be punished under the provisions of section 177 or section 182 of the Indian Penal Code which run as follows:—

' 177. Whoever, being legally bound to furnish information on any subject to any public servant, as such, furnishes, as true, information on the subject which he knows or has reason to believe to be false, shall be punished with simple imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees, or with both. * * *'

" 182. Whoever gives to any public servant any information which he knows or believes to be false, intending thereby to cause, or knowing it to be likely that he will thereby cause such public servant—

(a) to do or omit anything which such public servant ought not to do or omit if the true state of facts respecting which such information is given were known by him, or

(b) to use the lawful power of such public servant to the injury or annoyance of any person

shall be punished with imprisonment of either description for a term which may extend to six months or with fine which may extend to one thousand rupees, or with both.'

The returns under section 19-A, or section 22, or sub-section (2) of section 26-A, or sub-section (2) of section 32, or sub-section (2) of section 33-A, must be "verified in the prescribed manner" and under section 52 of the Act a false statement in any such verification is an offence punishable under section 177 of the Indian Penal Code.

Apart from these legal penalties, under section 28 of the Act if the Income-tax Officer, the Assistant Commissioner or the Commissioner is satisfied that an assessee has concealed the particulars of his income or has deliberately furnished inaccurate particulars of such income and has thereby returned it below the real amount, he may direct that the assessee shall pay a penalty not exceeding

the amount of the tax which would have been avoided if the return had been accepted as correct. If the profits of a registered firm have been distributed otherwise than in accordance with the shares of the partners as shown in the instrument of partnership registered under the Act governing such distribution and any partner has thereby returned his income below its real amount, the Income-tax Officer, Assistant Commissioner or Commissioner, as the case may be, may impose similar penalty on the partner concerned and no refund or other adjustment shall be claimable by any other partner on this account.

Penalty under section 28 is leviable in the course of any proceedings under the Act provided that the facts justifying the imposition of a penalty under the section are established. There is nothing in either section 28 or section 34 to preclude the imposition of a penalty in the course of proceedings under section 34 in respect of the original return under section 22 (2), if the facts of the case justify the imposition of such a penalty.

Clause (4) of section 28, however, provides that where a penal assessment under that section is imposed by the revenue authorities, no criminal prosecution for an offence shall be instituted on the same facts. It is obviously not desirable that there should be room for a possible conflict between the revenue and judicial authorities, and it is also unreasonable that a double punishment should be provided for.

A criminal prosecution cannot, under section 53 (1) of the Act, be instituted except at the instance of an Assistant Commissioner. In most cases action under section 28 will be effective although in more serious cases a prosecution might be launched.

69. Production of accounts. [Section 22 (4).]—Under sub-section (4) of section 22 the Income-tax Officer is empowered to call upon any person liable to make a return to produce such accounts or documents as he may require. It does not, however, empower him to ask the assessee to prepare accounts like a profit and loss account which they do not already possess and do not require for their own purposes: all that it empowers the Income-tax Officer to do is to call for accounts and documents which are, or are believed to be, in existence. The production of accounts may be called for whether a return has or has not been made. As stated in paragraph 67, it is always desirable in the interests both of the assessee and of the Government that Income-tax Officers should obtain a return of income before they make an assessment. If, however, such returns are not forthcoming, they should, so far as possible, obtain the accounts of the assessee. Again, if a return is made the Income-tax Officer has power to call for accounts wherever he considers it necessary for the purpose of testing the accuracy of the return. It is, however, desirable that the least possible inconvenience should be given to assessee by the detention of their accounts by Income-tax Officers, and Income-tax Commissioners should take steps to see that accounts are not detained for any undue time or for any unnecessary purpose. Steps should be taken

to secure that the services of competent and reliable Accountants where employed by assesseees should be utilised to the fullest extent by the Income-tax Officers. The latter from their experience should soon know what particular Auditors can be relied upon to give accurate figures. Where a statement of profit and loss filed by an assessee has been certified as correct and complete by such an Accountant, the Income-tax Officers should, unless he sees reason to the contrary accept the statement as correct and complete with

regard to the facts mentioned in it, although he will frequently have to call for details showing how various figures are made up. But in such cases the Accountant himself when authorised by the assessee to appear on his behalf should be asked to supply the details. Income-tax Commissioners should take steps to secure that the services of such Accountants are fully availed of.

The proviso to sub-section (4) of section 22 prevents any Income-tax Officer from calling upon an assessee to produce books of account going back for a period of more than three years prior to the "accounting period". This limitation applies merely to books of account; it does not apply to documents. No limitation is placed by the Act upon the power of the Income-tax Officer to call for documents of any date.

Neglect to furnish accounts or documents asked for by the Income-tax Officer under section 22 (4) is punishable under section 51 (d) and, further, under the provisions of section 23 (4) read with section 30 (1), any person who fails to comply with the requisition of the Income-tax Officer for the production of accounts or documents may not appeal under section 30 against the assessment made whether he has made a return or not. If the assessee is a *registered* firm the Income-tax Officer may cancel its registration. He is in exactly the same position as a person who did not make a return in the first instance, his only remedy being that described in paragraph 67 (*i.e.*, under section 27).

70. Evidence in assessment proceedings other than returns and accounts of assessee.—In addition to his general power to call for accounts, the Income-tax Officer where he believes that a return made under section 22 (2) is incorrect or incomplete, has power to call upon an assessee to attend or to produce or cause to be produced evidence of the correctness of his return. If an assessee fails when required by an order under section 23 (2) to attend or to produce evidence in support of his return, he is not liable to any penalty under section 51, but failure to comply with such orders has the result of placing the assessee in exactly the same position as a person who failed originally to make a return [see section 23 (4)], that is, he may not appeal against the order of assessment or take any action other than action under section 27 as described in paragraph 67. If the assessee is a *registered* firm, the Income-tax Officer may cancel its registration.

Under section 23 (3), the Income-tax Officer is empowered to utilise any evidence bearing on the assessment which he may obtain of his own motion, while under sections 37 and 38, he can enforce the attendance of any person for this purpose and compel the production of the information that he requires.

The following special instructions should be observed in calling for information from railway administrations:—

- (i) The information must be relevant to an individual assessment. Income-tax Officers should not, for instance, ask

for a complete statement of all consignments to or from a particular station.

- (ii) The demand for information must be couched in definite terms. For instance it must state whether the particulars are required with regard to outgoing or incoming consignments and name the stations with regard to which the information should be collected.
- (iii) The requisition for information should always be sent to the Agent of the Railway administration concerned. There is no objection, however, to Railway officers furnishing information direct to the income-tax authorities without the intervention of the Agent where the Agent has no objection to their doing so.

Section 37 gives power to call for railway books.

Except as provided in section 19-A and Rules 42 and 43, a company should not be required to furnish the Income-tax Officer with a return of the persons (with their addresses) for the time being appearing on the share register of the company and the amounts of the dividends paid or payable to such persons during any particular period. Such a duty would be burdensome to the company with no corresponding advantage to the administration. It is for this reason that in section 39 of the Act provision is made that the share register, the register of debenture holders and of mortgagees of any company are open to the inspection of the income-tax authorities, who may also take copies or cause copies to be taken of any entries in such registers. Since the power to inspect, and take copies of such register is specifically conferred by section 39, no income-tax authorities utilising these special powers can be called upon to pay any fee for inspection or copies under the Companies Act.

The Bill as originally framed contained a provision empowering an Income-tax Officer to require information to be given regarding specific payments shown in the accounts of an assessee where there is reason to believe that such payments will become liable to tax in the hands of the recipients. This particular provision was omitted by the Select Committee on the Bill as being entirely unnecessary because Income-tax Officers have ample powers to disallow any payment shown in the accounts of an assessee where proof of the payment is not forthcoming.

Section 37 also provides for the issue of commissions. The scale of diet money and travelling expenses for witnesses summoned under this section should be that prescribed for attendance in civil courts in the Province concerned.

71. Personal attendance of assessee.—While section 23 (2) empowers the Income-tax Officer to require a person making a return to attend at his office, under the provisions of section 61 any person required or entitled to attend before any income-tax authority may either attend in person or be represented by a person duly authorised by him in writing. The penalty to which an assessee who failed

to attend when required to do so by an Income-tax Officer was liable under the Act of 1918, has been omitted from section 51 of the present Act. While there is no obligation on an assessee to attend in person at any stage of the assessment proceedings or before any income-tax authority in connection with any proceedings or under the Act, and while he may be represented at any such proceedings by any person he pleases to authorise in writing, failure to attend or to be so represented has the result that the assessee loses any right of appeal against the assessment.

It should, however, be particularly noted that the provisions of section 61 merely refer to attendance. Returns and verifications required under the Act must be signed either by the assessee himself or by any duly authorised person.

It is desirable that tax-payers should be allowed to use whatever agency they please for the purpose of representing their case; and whatever person they authorise to represent them whether he be an employé, an accountant or any other person, has presumably been selected by them as the person having the best knowledge of their accounts and financial position, and such person is entitled to appear before any income-tax authority and to give explanations and produce evidence regarding any points of doubt that may arise.

72. Set-off of loss under one head of income against income under another head.—Under the Act of 1918 it was the aggregate amount chargeable under each of the separate heads mentioned in sections 7 to 12 of the Act that determined the total and taxable income of an assessee, so that when a person carried on a trade or profession and also had an income from house property, if he had actually incurred a loss from the trade or profession, the figure adopted under that head in arriving at the aggregate amount of the income chargeable to tax was *nil* and not a *minus* sum. Under the provisions of section 24 of the Act a loss under one head of income may now be charged against profits under another in the same year.

Sub-section (2) of section 24 only applies specifically to the case of a registered firm but the Madras High Court has held that under the provisions of section 24 (1) a partner in an unregistered firm is entitled to set-off his share of the net loss incurred by the firm in the same circumstances and to exactly the same extent as a partner in a registered firm. It has been decided to accept that decision. The result is as follows. A firm owning property or having income from a business and being in receipt of interest on securities would, under the provisions of sub-section (1), be entitled to set-off a loss from the business against its income chargeable in respect of interest on securities under section 8 or property under section 9. But it might happen that a firm might incur a net loss, in which case it would not be liable to tax. Sub-section (2) specifically provides for such a case.

Illustration.—A firm has property the annual value of which is Rs. 2,000, has income from interest on securities amounting to

Rs. 1,000 and carries on a business from which it incurs in one year a loss of Rs. 10,000. The firm is entitled under the provisions of sub-section (1) of section 24 to set-off the loss from business against the annual value of the property and the interest on securities, and its total income would be *minus* Rs. 7,000. A who is a partner in the firm having a share of one-half in the profits thereof, has other personal income of Rs. 6,000 from interest on securities. He is entitled under the provisions of sub-section (2) to set-off his share of the net loss from the firm (*viz.*, Rs. 3,500) against this personal income and would be assessed on a total income of Rs. 2,500.

Where an individual is a partner in two separate firms of which one is registered and the other unregistered and has no separate personal income, he should be allowed, in dealing with any application for refund under section 48, to set-off his share of any net loss incurred by the unregistered firm against his share of the profits of the registered firm. For example, 'A' having a half share in an unregistered firm, which incurred a net loss of Rs. 2,000 in one year, had in the same year no personal income liable to assessment to income-tax in his own hands, but had a similar share in another registered firm which had made a net profit of Rs. 10,000. Such cases will be rare and should be dealt with on the basis of real income, *i.e.*, in the case above quoted 'A' should get a refund so adjusted that he shall suffer finally tax of 5 pies in the rupee on his real income of Rs. 5,000 *minus* Rs. 1,000, *i.e.*, Rs. 4,000. The same principle would apply if both firms were registered. Where the situation is reversed that is where the registered firm makes a loss and the unregistered firm a profit obviously no relief can be given. Nor can an unregistered firm claim to set-off losses of the individual partners against the income of the firm. But a partner in a registered firm should be allowed to set-off loss incurred in his individual capacity against his income as partner in dealing with any application under section 48.

Similarly if 'A' has a loss of Rs. 1,000 in business, an income of Rs. 1,000 from interest on securities and an income of Rs. 3,000 from dividends, he should be allowed to set-off his loss of Rs. 1,000 against his income of Rs. 4,000 and should be taxed on the balance of Rs. 3,000.

In the same way, if A borrows money to buy securities or shares and the interest on the loan exceeds the interest or dividend that he receives, he is entitled to set-off the excess of the interest paid over the interest or dividend received against any other taxable income. (See Paragraph 28.)

The correct procedure in such cases is to ascertain the total income after allowing the set-off, calculate the tax on that at the appropriate rate (apply section 17 if the circumstances justify such a course), credit the tax "suffered" on the dividends on the one hand and debit any refunds granted under section 48 on the other and collect or refund the balance as the case may be.

From the point of view of equity it is obviously reasonable to allow a set-off in these cases; from the legal point of view it is

incorrect to argue that section 24 (1) is inapplicable to such cases on the ground that income from dividends or income derived from a firm is not (from the point of view of the shareholder or partner) income falling under any of the heads mentioned in section 6—Section 24 (1). Obviously such income must fall under one of these heads, otherwise (a) it could not be included in the total income of the shareholder or partner; but it is so included—section 16; and (b) the shareholder or partner could in no circumstances be assessed individually on such income, but under section 14 (2) he is assessable on such income if it so happens that the company or firm has not been assessed. Consequently such income from dividends or from a firm must fall under one of the heads in section 6. Income from dividends should evidently be regarded in the hands of the shareholder as income from “Other sources,” while income from a firm should be regarded in the hands of the partner as income from “Business”. On the other hand the partner or shareholder is not an “assessee” in respect of such income unless the firm or company has not been assessed.

73. New business.—As stated in paragraph 14, assessments under the Act are made on the profits of the “previous year”. When a new business is started, therefore, no assessment will, as a rule, be made in the first year, and the assessment in the second year will be made on the profits of the preceding year. The only exception is that referred to in the next paragraph.

74. Businesses closing down.—The only exception to the general rule that assessments are made on the profits of the previous year is contained in section 25 (1) where, in order to guard against a possible loss of revenue owing to delay in making assessments on the profits of businesses, professions or vocations that close down during the course of a financial or commercial year, it is provided that in such cases in addition to the assessment on the income of the preceding year a further assessment may be made in the year in which a business, profession or vocation is closed down, on the income of that year. Sub-section (2) of that section imposes a statutory obligation on persons discontinuing a business, profession or vocation to give notice of such discontinuance within 15 days of the discontinuance.

It is to be noted that these provisions apply only to businesses, professions or vocations, that is to say, to profits or gains taxable under sections 10 and 11, and further, that they only apply to any business, profession or vocation on which income-tax was not at any time charged under the provisions of the Indian Income-tax Act, 1918. They do not apply to any business, profession or vocation on which income-tax had been charged under the provisions of that Act, as these are subject to the special provisions of section 25 (3) which are described below.

The power to make this additional assessment under section 25 (1) is a *discretionary* power which may be exercised whether the business, etc., is a purely temporary business commencing and

closing down in the same year, or whether it is a business that has been in existence and has been previously taxed under the present Act. It should only be used in cases where there is reason to anticipate that the tax may not be collected unless the assessment is made in the year in which the business, etc., closes down. Where there is reason to believe that there will be no difficulty in making the assessment and collecting the tax in the usual manner, that is, in the year after the business closes down and on the profits of the year in which it did close down, there is no need to use the special powers conferred by this sub-section.

The profits to be taxed under the provision of section 25 (1) are the profits accruing between the end of the last "previous year" of which the profits have been taxed and the date of the discontinuance of the business. Further, the rate to be applied in taxing the discontinued business under sub-section (1) is the rate in force in the year in which the assessment is made.

Where a business, profession or vocation had tax charged on it under the provisions of the Income-tax Act of 1918, the provisions of sub-section (1) to section 25 cannot be brought into use for the assessment of any such business. On the contrary for reasons given in paragraph 14, it is, under the provisions of sub-section (3) of section 25, not liable to tax in respect of profits or gains for the period between the end of the last "previous year" and the date of discontinuance, but is entitled to substitute the profits of that period for the profits of the last "previous year". For example, in the case of a business whose "previous year" ends on 31st March, if it close down on March 31st, 1923, its assessment for 1922-23 will be on the profits for the year ending 31st March 1922, or at its option, on the profits of its year ending 31st March 1923. If such a concern closed down on 30th April, 1922, it would still be assessed in the year in which it closed down, but the assessment would be on the year's profits to 31st March 1922, or at its option on the profits of the month of April 1922. If, however, the concern's "business year" ends on 30th April and it closes down on 30th September 1922, its assessment in the year 1922-23 would be on the profits of its year to 30th April 1921 or at its option on its profits from 1st May 1921 to 30th September 1922. This special provision applies only to a business, profession or vocation on which tax was charged under the Act of 1918, and when a claim for this concession is made, it must be supported by proof that tax had been charged under the Act of 1918 in respect of that very business, profession or vocation.

An assessee should be allowed the benefit of section 25 (3) if (1) he has (for example) both a business and a profession and discontinues only one of them or (2) has more business than one and discontinues one or more, but not all of them, provided that they are genuine distinct businesses for which separate accounts are maintained, and not mere branches of a single business. The section should, of course, only be applied to the income of any profession or business that is actually discontinued.

A claim to be assessed under this sub-section may be admitted if it is made not later than the end of the year following that in which the business, profession or vocation is discontinued.

N.B.—The provisions of section 25 apply to the complete stoppage or discontinuance of a business, profession or vocation and do not apply to any change in the *proprietorship*. Where there is any change in the proprietorship merely, the provisions of section 26 apply (see paragraph 75-A).

Where a business, profession or vocation is completely discontinued and is not merely transferred from one proprietor or set of proprietors to another, the person who carried on the discontinued business is responsible for the payment of the tax, and where the proprietorship was vested in a firm, section 44 specifically provides that the persons who were members of the firm on the date of such discontinuance, are jointly and severally liable to any tax due from the firm.

75. Change in the constitution of a firm. [Section 26 (1).]—As amended by Income-tax Amendment Act III of 1928, section 26 now consists of two parts, the first part dealing with changes in the constitution of a firm and the second part with changes in the ownership of a business, profession or vocation. Under section 26 (1) the assessment on the firm and on the members thereof shall, subject to the provisions of this Act, be made as if the firm had been constituted throughout the previous year as it is constituted at the time of making the assessment and as if each member had received the share of the profits of the year proportionate to his interest in the firm at the time of making the assessment. For example, if 'A' happens to be a member of a firm when an assessment is made in the year 1922-23, even if 'A' has newly succeeded to the partnership just before the assessment is made, he is deemed, for the purposes of both income-tax and super-tax, to have received out of the profits of the year 1921-22 (which are the profits assessable in the year 1922-23) the share to which he would have been entitled had his share in the firm been the same as it was in 1922-23 when the assessment was made.

75-A. Succession. [Section 26 (2).]—This sub-section applies only to cases in which a business, profession or vocation has changed hands. This sub-section incorporates the decision of the Privy Council in the Western India Turf Club case. The assessment should be made on the successor as though he had been carrying on the business, profession or vocation throughout the previous year and as if he had received the whole of the profits for the year. The rate of tax payable will depend on the status of the successor and not on that of the predecessor.

If two or more firms amalgamate and are taken over by a new company, or if a company already in existence takes over one or more firms any loss of one firm can be set off against the profits of another firm or of the company or *vice versa* in taxing the company in the first year after the succession. A single assessment should be made on the successor in respect of the profits of all his

predecessors and of himself, if he existed in the previous year, taken together.

Where a concern splits up into two or more concerns, each of the latter should be assessed on the profits in the previous year of the corresponding part of the original business in the manner appropriate to its status (*i.e.*, whether it is a firm or a company, etc.) when the assessment is made. Where a person disposes of a part of his business to another, there is a succession in respect of that part, and the same principles apply. When a business is split up or a portion thereof transferred, it is not correct to make a consolidated assessment on the profits of the business as a whole in the previous year and then apportion the tax between the different proprietors of the divided parts.

When in the year in which the first assessment is made after succession to a business has occurred, the successor wishes to adopt a different accounting period from his predecessor's, the request should be treated as involving a change of accounting period. If the result of this change is to leave an interval between the end of the last complete accounting period of the predecessor and the beginning of the first accounting period of the successor, the Income-tax Officer should permit the change of accounting period only on the condition that a separate assessment is made on the income of the interval in addition to the assessment on the income of the first accounting period of the successor. The income of the interval, however, should be assessed at the rate applicable to the income of the first accounting period taken separately or at the rate applicable to the income of the interval taken separately whichever rate is less. The income of the interval and that of the first accounting period should not be lumped together and assessed together at the rate applicable to their aggregate.

76. Orders of assessment.—When an assessment order has been passed under section 23, any assessee who applies to the Income-tax Officer for a copy of the order must be supplied by the Income-tax Officer with a copy, free of charge, subject to the following conditions:—

- (i) that not more than one copy of an assessment order should be supplied free, and
- (ii) that a copy of assessment order of a year previous to that in which it was passed should not be supplied free of charge unless the applicant satisfies the Income-tax Officer that it is required for his use in some proceedings which are pending under the Indian Income-tax Act, 1922, with reference to the particular assessment covered by the order and which are not time-barred.

Proposed representations to higher authority which are not covered by any provision of the Act will not be regarded as proceedings pending under the Act.

77. Notice of demand.—The notice of demand referred to in section 29 and prescribed in rule 20 draws a clear distinction

between the cases where an appeal lies against an assessment and where an appeal does not lie and shows the appropriate remedy to an aggrieved assessee in either case. These notices of demand should, so far as possible, contain the demand both on account of income-tax and super-tax, and since the total income has to be ascertained in every assessment for income-tax in order to determine the rate at which income-tax shall be payable on any income for which the assessee is responsible for direct payment, and as it is on the same total income that super-tax is leviable, it is desirable that, so far as possible, in the interests of economy and convenience to assessees, the assessment both of income-tax and super-tax should be made simultaneously.

78. Appeals to Assistant Commissioner.—The cases in which an appeal may lie to an Assistant Commissioner against the orders

of an Income-tax Officer are specified in detail in section 30. As stated in paragraph 67, it is necessary that every effort should be made to get taxpayers to file returns of income and the restrictions on appeals contained in the proviso to section 30 (1), which definitely forbid the entertainment of any appeal against an assessment where the Income-tax Officer has been compelled to make the assessment under section 23 (4) [i.e., in cases where an assessee has failed to make a return or has failed to produce his accounts when called for or has failed to produce any proof of the accuracy of his returns], should be rigidly adhered to. Under no circumstances may any appeal be entertained in those cases.

Section 30 now allows appeals to the Assistant Commissioner against the refusal of an Income-tax Officer to re-open a case under section 27 and also against the orders of an Income-tax Officer imposing a penalty under section 25 (2) or section 28.

Where the determination of the precise amount of loss sustained by an assessee in a particular year is material, for example, where the assessee is a firm and the amount of loss sustained by the firm affects the assessments of the partners, or where the amount of depreciation that can be carried forward is affected, an appeal should be admitted under section 30 against the Income-tax Officer's decision as to the amount of loss unless, of course, the case has been decided under section 23 (4).

The form in which an appeal must be presented to the Assistant Commissioner is specified in rule 21 and that form must also be verified in the method prescribed in the same rule. Any false statement in the said verification is punishable under section 52.

An Assistant Commissioner should not hear appeals against his own orders passed as Income-tax Officer. When an Income-tax Officer on appointment as Assistant Commissioner, acting or permanent, is not transferred to another Assistant Commissioner's range, appeals against his orders as Income-tax Officer should be heard by another Assistant Commissioner appointed under section 5 (1) to hear such appeals.

79. Powers of Assistant Commissioner in dealing with appeals. (Section 31).—The provisions of this section have been re-worded in order to make it clear that the Assistant Commissioner in entertaining an appeal has power to remand a case to the Income-tax Officer for report or disposal on its merits and also that the Assistant Commissioner is not required to pass orders on the actual date of hearing, but may pass orders after the last day of hearing.

An Assistant Commissioner in dealing with an appeal may enhance the assessment made by the Income-tax Officer, but under the proviso to sub-section (3) he must first give the appellant a reasonable opportunity of showing cause against the enhancement. The appellant in such a case may, under section 32, appeal to the Commissioner against the order of enhancement.

Appeals should never be simply dismissed for default of appearance—they should always be decided on their merits, and

a reasoned decision written, whether the appellant appears or not. If the notice of hearing has not been served on the appellant in time to permit of his appearing in person or by pleader at the time and place fixed for the hearing of the appeal, the appeal should not be disposed of, but should be adjourned and a fresh notice issued to the appellant.

80. Appeals to Commissioner.—No second appeal lies from orders passed by an Income-tax Officer. One appeal is allowed to the Assistant Commissioner under section 30. The only cases in which an appeal may be made to the Commissioner are against special orders passed by an Assistant Commissioner himself, *viz.*, an order imposing a penalty under section 28 or an order enhancing an assessment in the course of an appeal. No appeal lies to the Commissioner in any other case.

81. Commissioner's power of revision. (Section 33).—The period within which an Income-tax Officer may assess income that has escaped assessment is restricted by section 34 and the time within which an Income-tax Officer, Assistant Commissioner or Commissioner of Income-tax may correct a mistake apparent on the face of the record by section 35. The Commissioner acting under section 33 cannot extend this period of limitation though he can revise, after it has expired, action validly taken within it. If a Commissioner of Income-tax desires to exercise his power of revision in any case where more than a year has elapsed since the passing of the last order by the subordinate authority he should not do so without first consulting the Central Board of Revenue.

Where in consequence of any appellate or revisional order, or any decision of a High Court on a reference, the assessment of a firm is modified in a manner entitling any partner to a reduction of the tax imposed on him individually, and for any reason such relief cannot be given by the Assistant Commissioner in the exercise of his appellate powers, the Commissioner of Income-tax should make the reduction under section 33 regardless of the period of one year mentioned above.

The Commissioner need not make a personal enquiry, if any enquiry is necessary, before exercising his powers of revision. He may cause an enquiry to be made by a subordinate officer.

The power conferred by this section on a Commissioner can only be exercised once in any particular case. A Commissioner who has once "declined to interfere" under this section is debarred from subsequent action under that section just as he would be if he had passed an order modifying the assessment.

An order under section 33 merely declining to interfere is not an order "prejudicial to the assessee". A Commissioner is therefore not bound to hear an assessee or his representative before rejecting a revision petition. The Act, of course, does not contemplate such petitions

The decision of a Board of Referees under section 33-A is not subject to appeal to any Income-tax authority and cannot be revised by the Commissioner in exercise of his powers under section 33.

81-A. Reference to Board of Referees. (Section 33-A).—No time is prescribed in sub-section 3 of section 33-A within which the Commissioner should refer an appeal to a Board of Referees. But every effort should be made to avoid delay in making these references. So far as possible the reference should be made within 60 days at most of the receipt of the appeal.

82. Assessment of income which has escaped assessment in previous years.—Under the provisions of section 34 where income chargeable to income-tax has escaped assessment in any financial year or has been assessed at too low a rate, the Income-tax Officer may commence proceedings at any time within one period of twelve months reckoned according to the Gregorian Calendar from the end of the financial year in which the income so escaped assessment in order to get a full or proper assessment. All that section 34 requires the Income-tax Officers to do within the statutory period of one year is to *commence* proceedings for assessment. It is not necessary that the proceedings should be completed within that period.

A notice under section 34 need not specify the detailed grounds on which it is proposed to re-open the assessment.

The following form has been prescribed for the notice under section 34:—

Notice under Section 34 of the Indian Income-tax Act (XI-22.)

Income-tax office.

Dated

To

Whereas I have reason to believe that your income from *
chargeable to income-tax in the year ending the 31st March 19 ,

(a) has wholly
partially escaped assessment,

(b) has been assessed at too low rate, that is to say, at
pies in the rupee instead of at pies in the rupee,
and I therefore propose—

(a) to assess the said income that has escaped assessment,

(b) to re-assess your said income at the correct rate as afore-
said.

* Here enter source.

(a), (b)—Unnecessary portions to be struck out.

I hereupon require you to deliver to me not later than or within 30 days of the receipt of this notice, a return in the attached form of your income from all sources chargeable to income-tax during the said year ending .

Income-tax Officer.



I. T. 90.

If it appears at any stage of the proceedings that no income has escaped assessment or been assessed at too low a rate, the Income-tax Officer must promptly stop the proceedings. It is not intended that when a man has concealed part of his income and the Income-tax Officer is proceeding to assess the income that has escaped taxation, the assessee should be entitled to have an assessment that has already become final re-opened. Still less is it intended that the Income-tax Officer should be invested with wide powers of revision or review merely because he has formed a mistaken impression that certain income has escaped assessment or been assessed at too low a rate. His powers under section 34 can never be used, therefore, to effect a reduction of tax already levied.

When income that escaped assessment or was assessed at too low a rate is subsequently assessed or fully assessed, the proviso to section 34 makes it clear that the rate applicable to such assessment or re-assessment is the rate in force at the time when the income should originally have been so assessed.

83. Rectification of mistakes in assessments. (Section 35).—The power conferred upon the Commissioner or Assistant Commissioner of Income-tax or the Income-tax Officer by section 35 to rectify a mistake, whether on his own motion or on the application of an assessee, is confined to the rectification of mistakes patent from the facts or documents which were before him when he passed his revisional, appellate or original assessment order, as the case may be. This section does not confer on the Officers general power of review or authorise any assessee to introduce any new facts in connection with the said assessment. An Income-tax Officer should not correct mistakes in cases that have been dealt with by the Assistant Commissioner on appeal or the Commissioner of Income-tax in revision without a reference to the Assistant Commissioner or the Commissioner of Income-tax as the case may be.

84. Elimination of pies from assessment.—Section 36 provides that in income-tax assessments or refunds fractions of an anna less than six pies shall be disregarded, and fractions of an anna equal to or exceeding six pies shall be regarded as one anna. This provision has been made for the purpose of eliminating fractions of an anna from the accounts.

Income-tax Officers should also be instructed not to attempt to work out the Income-tax due on fractions of a rupee. Fractions of a rupee in *income* should be entirely disregarded.

85. *Income from properties or securities, etc., held under Trust.* (Sections 40 and 41).—Where any “property” (in the widest sense, but excluding a business) is held under Trust, the owner of that property, for the purposes of the Income-tax Act, is the beneficiary and the income is the income of the beneficiary. The Act does not permit of double taxation in the case of Trusts *viz.*, once in the hands of a trustee and again in the hands of a beneficiary. Under these sections, the guardians, trustees, agents, Courts of Wards, etc., are required to pay tax on income, profits or gains received by them on behalf of beneficiaries in the same manner and to the same amount as the beneficiaries themselves.

The following instructions should be followed in the assessment of such income:—

(A) *In cases not falling under sections 40 or 41*, the Trustee is merely to be regarded as an Agent. Receipt (actual or notional) of the income by him, or accrual of the income to him, is equivalent to receipt by or accrual to the beneficiary. Whether the income be distributed or allowed to accumulate, the beneficiary is to be assessed in respect of it. There is no provision for taxing the Trustee in respect of it. The beneficiary may, of course, apply for any refund that may be due. The Trustee cannot do so.

(B) *In cases falling under sections 40 or 41*, the position is the same except that the Act here provides for recovery of the tax from the Trustee. (a) *Where the Trustee holds the entire property in the widest sense of the beneficiary*, the assessment should be made on the Trustee, the tax will be recovered from him and he may apply for refunds. The assessment will be made as though the income from the trust property were the total income of the Trustee. The assessment will of course be quite distinct from that on any other income in respect of which the same person may be Trustee and from that on the Trustee's own individual income. (b) *If the Trustee does not hold the entire property of the beneficiary*, the assessment on the total income of the beneficiary will be made in the name of the beneficiary and the tax in respect of so much of the income as is received by the Trustee will be recovered from the Trustee, who may also apply for any refund due in respect of such part of the income, which refund will be calculated with reference to the total income of the beneficiary. These instructions 4 are equally applicable alike (a) where the Trustee simply receives dividends, interest on securities or other income on behalf of any pays such income to the beneficiary, and (b) where he receives dividends, interest, or other income on behalf of the beneficiary and pays a *fixed sum* out of the income to the beneficiary. If the balance of such income accumulates for the benefit of the beneficiary, it is to be regarded as his income of the year in which it accrues or arises to or is received by the assessee.

85-A. Income from business conducted by Trustees.—Where a business is conducted by a Trustee or Trustees on behalf of beneficiaries, the assessment is to be made on the Trustee or Trustees conducting such business; whether section 40 or 41 is applicable or not. If there are Trustees, they should be treated as an association of individuals (see judgment of the High Court, Lahore, in *Hotz Trustees versus Commissioner of Income-tax, Punjab Reference No. 8 of 1930*). The tax will be assessed on and recovered from the Trustee. In the hands of the beneficiary or beneficiaries, the income of a business thus conducted by Trustees will not be taxed again. [Section 14 (2) (c)]. It will, therefore, be treated exactly as though it were a share of the profits of an unregistered firm. Its inclusion in his total income may raise the rate of tax leviable on the remaining income of a beneficiary or render that income liable to super-tax. The Trust income in the hands of the beneficiary should not *itself* be subjected to super-tax a second time; if it has borne super-tax in the hands of the Trustees, though legally it is liable to be so subjected.

If such a business is conducted by a single Trustee, the same principles will be applied.

86. Non-residents. Income other than from business.—Under section 4 (1) tax is payable in respect of all income, profits or gains accruing or arising in British India or deemed under the provisions of the Act to accrue or arise or to be received in British India, whether the recipient resides in British India or not. There is little difficulty regarding income arising in British India and receivable by non-residents under the heads "salaries," "interest on securities," "property," "professional earnings," or "other sources." In cases of income from "interest on securities" and "salaries" income-tax is deducted at the source, and in the case of income under the other heads a non-resident is usually represented by an agent [section 42 (1)]. No difficulty has been experienced in determining whether income under any of those heads is taxable.

87. Non-residents. Income arising from business in India.—There is no precise definition in the Act which can be used as a test for determining in every particular instance whether a non-resident is or is not carrying on business in British India and how the amount of taxable profits is to be arrived at. Section 42 of the Act contains special provisions regarding non-residents, and rules 33 to 35 prescribe the manner in which and the procedure by which the income, profits and gains may be arrived at in the case of non-residents. Instances are given below of the method to be adopted in dealing with typical cases:

(1) *Indian branches of non-resident firms* are liable to assessment under the Act. In order to secure an accurate assessment in such cases, sections 22 (4) and 37 enable an Income-tax Officer to require the production of the balance sheet and profit and loss account of the firm as a whole in addition to that of the Indian branch, and also to require the submission of a detailed statement

of all the profits credited to the personal account of the head office on account of transactions carried out on its behalf. In some instances, however, the form adopted for the accounts and balance sheets of the head office or the Indian branch does not enable the share of profits properly due to the Indian branch to be accurately gauged, while there are certain firms which keep no accounts at all either at their head office abroad or at their branch offices in India. Rule 33 gives Income-tax Officers wide powers to determine how the profits of the Indian branch shall in these circumstances be calculated and enables them to fix as the income of the Indian branch for assessment purposes either a percentage of the turn-over of the business done by the branch or, where this procedure proves unsuitable, an amount which bears the same proportion to the total profits of the business as the Indian receipts bear to the total receipts of the business, or, where neither of the above methods proves suitable, any other more reliable method of calculation. In the case of shipping companies in particular the most suitable method of assessing the Indian branch is usually to calculate tax on the same proportion of the total profits of the company as the Indian receipts of the company (meaning thereby the sums received either in India or elsewhere on account of goods shipped or passengers carried from India) bear to its total receipts. In the special case of the Indian branches of non-resident insurance companies (life, marine, fire, accident, burglary, fidelity guarantee, etc.), it will probably be found both feasible and equitable to adopt the provisions of rule 35 and assess these branches on the proportion of the total profits of the companies corresponding to the proportion which their Indian premium income bears to their total premium income.

(2) *Indian firms allied to non-resident firms of which they are not technically either branches or agencies* often succeeded in the past in escaping their proper taxation by a manipulation of accounts with the parent non-resident companies. To cite an example, a foreign firm dealing in aniline dyes was registered as a separate limited liability company in India with a capital of Rs. 20,000. The shares were never placed on the market in India, but, with the exception of small holdings by managers in India, were all held abroad. The registered capital was nominal in comparison with the value of the stock-in-trade and the parent company abroad sold to the subsidiary Indian company at a price leaving a margin just sufficient to cover the expenses of the subsidiary company, or causing an actual loss to be shown. Section 42 (2) of the Act is designed to prevent a subsidiary Indian firm or company from benefiting by such a manipulation, and enables an Income-tax Officer to assess it on the profits which may reasonably be deemed to have been derived from its Indian business, while, where any difficulty is experienced in arriving at a basis for assessment, assessment on a percentage of turnover, or other suitable method can be adopted under rule 34. It is to be noted that the provisions of section 42 (2) are not applicable

where the parent non-resident firm or company is constituted within the British Empire and that the liability to assessment is placed on the subsidiary Indian firm as a principal and not as an agent.

(3) *Indian agents of non-resident firms of which they are not technically either branches or subsidiary firms* are liable for the payment on account of their principals, of the tax on their principals' Indian profits under the provisions of sections 42 (1) and 43 of the Act. It will be observed that these provisions permit the levy of the tax on a non-resident's business not only where he has established a regular *agency* in India but also where he conducts his business regularly through a particular *agent* or casually through various *agents*. In this case it is not necessary that anything of the nature of a regular *agents* should exist in order to make the profits of a non-resident chargeable in the name of an agent. They are so chargeable even when the only connection between the non-resident and the person acting as his agent is that that person is ordinarily and regularly employed as an agent by the non-resident. The Government of India do not, however, desire that in practice the liability to assessment should be enforced except where something definitely of the nature of an agency exists and in particular no attempt should be made to tax the profits of a *consignment business pure and simple*, merely because the non-resident consignor habitually uses a particular resident as his agent.

In all cases it will be a question of fact whether the connection between the non-resident and the resident is such that an agency can be held to exist. "Agency" for the purposes of this section should be interpreted to mean a regular, not casual, agent and one whose relation to the non-resident principal is such that the principal may reasonably be held to be trading "in the country" and not merely "with the country". If, for example, there is no privity of contract between a foreign principal and a resident who purchases the foreign principal's products through another resident or if the resident vendor has to bear any bad debts arising out of such transactions, the resident vendor is not to be treated as the agent of the non-resident. Even if a non-resident does not bear bad debts, he will be considered to be trading in the country (if there is privity of contract) if the agent receives a *del credere* commission, i.e., an additional commission in consideration of guaranteeing the non-resident against bad debts, or if the rate of commission is so unusually high as evidently to be intended to include a *del credere* commission though none is specifically mentioned. It is doubtful whether it is practicable to formulate for the guidance of Income-tax Officers any more definite principles than those stated above; but the following examples may serve to indicate the lines on which decisions should be reached:—

- (a) B, a distiller in Glasgow, has agreed to sell to no one in India except A, his Agent, provided that A gives B all or an agreed proportion of his trade. A pur-

chases from B and sells to the trade at his own rates, and all bad debts are A's. No attempt should be made to tax B on his profits. His position, in spite of his supplementary agreement with A, is merely that of a seller to an Indian consignee who takes the risks or profits of the trade in India.

- (b) A, an Indian resident and a large supplier of mill stores, has a monopoly for the sale in India of the belting of a non-resident B. A is paid commission by B on all orders he sends either for his own stock or risk or in execution of orders obtained. He does not confine his purchases of belting to B. He stands all loss from bad debts and fixes the prices to be asked for the goods. Here again the position of B is merely that of a seller to an Indian consignee, and no attempt should be made to tax B's profits.
- (c) A is the Indian agent for hardware and sundries of B, a British manufacturer. A receives salary and commission from B and bad debts fall on B. Here there is a regular agency and B's Indian profits should be taxed through A.
- (d) A is the Indian agent for B, a firm in an Indian State, who consigns goods for sale in Bombay and China through A. The business is purely a consignment business and B's profits on his Indian trade should not be taxed.

In all these cases A's remuneration or profits as agent are liable to the tax.

(4) *Casual agents for non-resident firms to whom goods are from time to time consigned* have been dealt with in (3) above and no attempt should be made to tax the profits of a non-resident through the agent on this class of business.

In the Madras High Court Case No. 4 of 1921, Chief Commissioner of Income-tax, Madras, *versus* Bhanjee Ramjee & Co. (I, **Srinivasan Tax Cases**, page 147), it has been held that a person who is not a resident in British India but to whom income arises or accrues through business connections in British India is assessable to income-tax under sections 4 and 42 (1) of the Act whether he is a British subject or a foreigner and that the provision in the latter section that such income shall be taxable in the name of the agent of any such person does not mean that it is not chargeable unless assessed in the name of an agent. It will be clear from section 42 (3) that the entire profits of a branch or agency of a foreign firm importing goods in British India are liable to tax in British India irrespective of where the profits accrued or arose, and whether received in British India or not. Thus if a foreign manufacturer has an agency or branch in British India and sells his products through it in British India, he is liable to tax on his manufacturing profits as well as on the mer-

chanting profits—while a foreign head office is not allowed to charge a notional commission to its branch or agency in British India on goods exported to the branch or agency and sold by it in British India.

If it is desired to assess a non-resident who has no resident agent through whom such assessment can be made, and whose entire income also cannot be taxed at source or indirectly, a notice under section 22 (2) should be served upon him as early as possible in the year by registered post (acknowledgment due) allowing plenty of time for the return to be made. If he then fails to make a return, or to comply with subsequent notices calling for the production of accounts, etc., (in which also ample time should be allowed for compliance), an assessment may be made under section 23 (4). When serving such notices on a non-resident, he should be invited in a covering letter to appoint an agent to represent him for income-tax purposes in India.

A person whom the Income-tax Officer has decided, after due notice and hearing under section 43, to treat as the agent of a non-resident, is not entitled to appeal to the Assistant Commissioner against the Income-tax Officer's order until an assessment has been made. But it is open to such person to petition to the Commissioner of Income-tax against the Income-tax Officer's order before an assessment is made; and Commissioners of Income-tax are authorised to dispose of such petitions under section 33 of the Act.

See also paragraph 91 as to the time within which arrears of tax due from a non-resident may be recovered.

88. Depreciation in assessing shipping companies.—The following instructions should be followed in regard to the treatment of depreciation in assessing shipping companies the whole of whose profits or gains neither accrue nor arise nor are received in India:—

If a company furnishes annual accounts for the whole of its business, Indian and foreign, the second method provided by Rule 33 should be applied. Depreciation has only to be considered in calculating the world-profits. These are to be calculated according to the Indian Income-tax Act. Profits calculated according to the United Kingdom Act will, therefore, require certain adjustments. Deductions permitted in the United Kingdom but not permitted in India will have to be added back and deductions permissible in India but not permissible in the United Kingdom will have to be allowed. If any company however prefers to claim the depreciation allowed by the United Kingdom Income-tax authorities, the Commissioners of Income-tax may adopt that figure. Otherwise depreciation will have to be calculated according to the Indian rules. What follows applies to the calculation of depreciation according to the Indian rules. For this purpose, a complete depreciation record has to be maintained for the entire fleet. Depreciation begins to run from the first year in which the Company is "assessed" in India, that is, the first year in which its profits (or loss) were determined for the purpose of deciding

whether it was liable to Indian Income-tax. Unabsorbed depreciation, *i.e.*, any balance of depreciation which cannot be allowed in any year owing to the profits not sufficing to cover the full amount permissible under the Indian rules will be carried forward and allowed as far as possible in calculating the world-profits according to the Indian method in the following year and if necessary in subsequent years. What has been said above about depreciation applies equally to obsolescence.

The proportion $\frac{\text{Indian receipts}}{\text{Total receipts}}$ is applied to the world-profits calculated according to the Indian method (if there are any such profits) and the result is the Indian income liable to tax. No further deduction is permissible from the amount thus arrived at on account of depreciation (unabsorbed or otherwise) or anything else. The due proportion of all allowances permissible is automatically set off against the Indian profits by the above method.

This method is equally applicable whether a Company works out the profits for each voyage or follows any other method of accounting provided that it prepares complete annual accounts for the *whole* business, Indian and foreign, and furnishes the accounts of gross receipts, Indian and foreign.

Some lines do not furnish complete annual accounts for their world business. They keep separate complete annual accounts for their Indian trade—that is, for all “round voyages” to and from Indian ports. The proper course is then to apply the method just described treating the profits of the Indian trade and the gross receipts of the Indian trade as though they were the “world-profits” and the “world receipts” respectively. In fact the business other than the Indian trade is ignored.

A difficulty sometimes arises in such cases owing to the fact that the ships employed in the Indian trade are constantly being changed. Unless United Kingdom depreciation is accepted as indicated above a depreciation record will have to be kept for every ship employed at any time in the Indian trade. Depreciation must be allowed on each ship employed in the Indian trade in a given year and the allowance must be a proportion of the annual rate calculated with reference to the number of days spent in the Indian trade whether at sea or in harbour. Any unabsorbed depreciation in any year must be distributed among the ships in the Indian trade in that year in proportion to the capital cost of each, and the unabsorbed depreciation thus allotted to any ship can only be allowed in any subsequent year against the *same ship*.

The allowance should cease:—

- (a) on ships included in the fleet in the first year in which the Company becomes *liable* to assessment in India (irrespective of whether it was actually found to have a taxable income in that year or not), after the twentieth year beginning with that year;

(b) on ships subsequently added to the Company's fleet, after they have been borne on the fleet for 20 years.

In both cases the period may be extended proportionately, where the United Kingdom depreciation is allowed in calculating the "profits of the Indian trade" which take the place as already explained of the "world-profits". (See Bengal High Court, Case No. 40 of 1920, *Birendra Kishor Manikya, versus Secretary of State for India I, Srinivasan Tax Cases*, page 261).

Obsolescence cannot be allowed in these cases.

89. British Shipping Companies—Assessment of.—When assessing British Shipping Companies, the Income-tax Officers should accept a certificate granted by the Chief Inspector of Taxes in the United Kingdom stating (1) the ratio of the profits of any accounting period as computed for the purposes of the United Kingdom income-tax computed without making any allowance for wear and tear to the gross earnings of the Company's whole fleet and the ratio of the United Kingdom allowance for wear and tear to the gross earnings of the whole fleet, or (2) the fact that there were no such profits. The expression 'gross earnings of the Company's whole fleet' means the total receipts of the Shipping Company, excepting only receipts from non-trading sources, such as income from investments. The following instructions should be observed where British Shipping Companies correspond direct with Income-tax Officers and not through an Agent in British India:—

1. Where a British Shipping Company which corresponds direct with an Income-tax Officer, is unable to furnish its return of income by the prescribed date, it will obtain an extension of time from the Income-tax Officer; but every effort should be made to file the return as early as possible.
2. The Income-tax Officer will make the assessment as soon as possible after receiving the return and in any case within one month.
3. The notice of demand will be issued on the shipping company's agent in accordance with the provisions of the Income-tax Act and a copy of the assessment order will be sent to the company direct. The company will arrange with its agent for the despatch to it of the notice of demand.
4. Provided that the notice of demand can be issued on or before January 15th, the period allowed for payment will be sixty days. If the demand is made after January 15th the period will be shorter.
5. For the purpose of sub-section (2) of section 30 of the Indian Income-tax Act, 1922, the Assistant Commissioner will regard it as a proper extension of time to allow the shipping company to file an appeal up to the date on which a reply could be received from England if that reply were despatched by the mail in

the week following that in which the notice of demand and the copy of the assessment order reached, or could be presumed to have reached, the company.

6. The demand must be met within due date unless the Income-tax Officer agrees to give the agent further time for payment. But in any case the demand must be paid before the end of the financial year. If a demand has been paid before the decision of an appeal where one has been filed and the appeal results in a reduction of the assessment, a refund will promptly be granted in the ordinary course.

90. Occasional shipping.—(*Tramp steamers, etc.*).—Only one person can be taxed under Chapter VA in respect of a particular ship taking up passengers, live-stock or goods at ports in British India, and that person is the “principal” within the meaning of section 44A. Such principal may be either the owner or the charterer of the ship. It will be a question of fact in each case in which the ship has been chartered by the owner to another person whether the owner or the charterer is the principal.

Chapter VA is only applicable where the principal:—(1) carries on business in British India as the owner or charterer of a ship. (2) does not reside in British India, and (3) does not employ an agent from whom the tax would be recoverable under section 42. Where there is no charterer the owner will be the principal. Where there is a charterer it will be a question of fact whether he or the owner is the principal. The business of which the profits are to be calculated and assessed for income-tax under Chapter VA is the business of carrying passengers, live-stock or goods shipped at ports in British India, and the person to be taxed is the person (referred to in Chapter VA as the ‘principal’) who carries on that business, but does not reside in British India, and does not employ any agent from whom the tax would be recoverable under section 42. The criterion to be applied is, “who is the person to whom or on whose behalf money is paid or payable on account of carriage of passengers, live-stock or goods from a port in British India?”

Generally speaking, where there is what is known as a ‘Time Charter,’ under which the owners may be said to let the ship out to the charterer for a fixed sum for a certain period, during which the owners retain no further control over the vessel or her movements, the owners cannot be held to be carrying on business in British India, or even to have a ‘business connection’ in British India, and are therefore not liable to Indian income-tax either under Chapter VA or under section 42.

Where, however, the ship has been chartered under what is known as a ‘Voyage’ or ‘Trip’ Charter the position is different. Under this kind of Charter party, the charterers are practically in the position of brokers, who guarantee to secure a certain quantity of cargo for the owners at certain rates of freight. If the full amount of freight cannot be secured, the charterers are liable to

make good the deficiency. Any such deficiency is to be paid by the charterers to the Master, on behalf of the owners, in cash, *minus* a certain percentage, at the time and place of loading in India. Similarly, if freight is secured in excess of that stipulated, the Master of the ship is to pay such excess to the Charterers, at the time and place of loading, by demand draft on the owners on London. The Bills of Lading are signed by the Master on behalf of the owners; and the cargo as soon as shipped is therefore in the constructive possession of the owners; and at their risk. The ship is usually consigned to the Charterers or *their agents*, who look after its interests when in port, and for doing so are paid a commission by the owners. The owners also pay brokerage. In such a case, the owners are carrying on business in British India through their agent the Master, who receives cargo on their behalf, and receives and makes payments on their account in British India, and thus the owners having no *regular* or permanent agent in British India are liable to tax under Chapter VA on the profits of the business conducted by the Master on their behalf.

If a ship has arrived in a British Indian port, either on owner's account or under a charter and the non-resident owner, or the non-resident charterer, causes the ship to be chartered, or transfers the existing charter, or effects a sub-charter of the vessel, as the case may be, such a transaction, though it does constitute the carrying on of business in British India by the non-resident, does not of itself amount to carrying on business within British India as the owner or charterer of a ship within the meaning of Chapter VA. But if the ship is loaded in any British Indian port the question whether the non-resident owner or the non-resident charterer is assessable to income-tax under Chapter VA must be decided on the principles stated above. Whoever of these two persons causes the ship to be loaded with cargo, and is paid the freight for carrying such cargo, is the person who carries on business within the meaning of section 44A.

91. Method of the recovery of the tax.—The Income-tax Officer is responsible for the recovery of the tax whether the demand represents the tax assessed by himself under section 23 or sub-section (4) of section 23-A or whether it represents an enhancement made by the Assistant Commissioner on appeal under section 31 or by the Commissioner in exercise of his powers of review under section 33. Notices of demand under section 29 or under clause (iii) of sub-section (4) of section 23-A in the form prescribed in rule 20 should be issued at as early a date as possible after the assessment is made under section 23 or sub-section (4) of section 23-A or when intimation is received of orders of enhancement from superior authorities in order that the tax may be promptly collected. The fact that an appeal has been lodged against an assessment should not stop the collection although the Income-tax Officer is empowered, under section 45, in his discretion to treat an assessee as not being in default until an appeal is disposed of. When the Income-tax Officer considers that an appeal is a *bonâ fide* appeal, he should in exercise of his discretion under section 45 require the

assessee to pay the portion of the tax that is not in dispute and should, under no circumstances, delay the collection of that portion of the tax which is not disputed in the appeal. Similarly section 66 (7) of the Act provides that a reference to the High Court shall in no way stop the collection of the tax.

When the tax is not paid within the time prescribed in the notice, or, if no such time is prescribed, by the first day of the second month following the date of the *service* of the notice or order, the Income-tax Officer should use the powers conferred upon him, by sub-sections (1) and (1-A) of section 46 and impose a penalty for the default.

Section 46 (3) and (4) provides for cases where a special whole-time income-tax staff for the actual collection of the tax is employed in any area. Where such a staff is employed, the Commissioner of Income-tax may confer upon that staff any of the powers for the enforcement of any process for the recovery of a municipal tax or local rate imposed under any enactment which is in force in any part of the province, *e.g.*, the powers of distraint. In other areas and, in the areas in which a special staff is employed where the powers for the recovery of municipal taxes or local rates have proved insufficient, the Income-tax Officer may, under section 46 (2), forward under his signature a certificate specifying the amount of arrears due from an assessee to the Collector of the district, and the Collector of the district on receipt of such a certificate must proceed to recover the amount specified in the certificate as if it were an arrear of land revenue.

Where the defaulter is a salaried person the Income-tax Officer may, under the provisions of section 46 (5), require the person paying "salary" to such assessee to deduct from any subsequent payments of "salary" any arrears of tax due from such assessee whether those arrears are due on account of tax on 'salary' or on income from any other sources or on account of any penalty.

The necessity for prompt collection of the tax should be impressed upon Income-tax Officers since not only is delay in the collection of this tax likely to result in loss of revenue for other reasons, but, under the provisions of sections 46 (7), no proceedings for recovery can be commenced after the expiration of one year from the last day of the year in which the demand is made, with the exception of the special case referred to in sub-section (1) of section 42. That sub-section refers specially to arrears of tax due from a non-resident. For the collection of such arrears no time limit is prescribed as such arrears may be recovered from any assets of the non-resident which may at *any time* come within British India.

The phrase "proceedings for the recovery of any sum payable under this Act" should be interpreted as relating to proceedings taken under section 46. The issue of a notice of demand is not a proceeding for the purpose of this section.

The above remarks regarding recovery of tax apply also, under the provisions of section 47 to the recovery of any penalty imposed

under section 25 (2), section 28 or sub-section (1) and (1-A) of section 46.

92. Refunds of Income-tax. (Section 48).—Refunds are necessitated owing to the system of taxation at the source, which occurs in the case of the tax on companies and on registered firms [section 48 (1) and (2)], and of deduction at the source, which occurs in the case of “ interest on securities ” and “ salaries ” [section 48 (3)]. In both these cases the rate of tax appropriate to the “ total income ” of the recipient (the shareholder, partner, security-holder or salaried person) is not known at the time that the tax is assessed or deducted. As stated in paragraph 61, in order to simplify the procedure in connection with refunds section 18 (9) makes it obligatory upon the person deducting income-tax from “ interest on securities ” to issue to all security-holders a certificate specifying the amount of the tax deducted from the interest and the rate at which it has been deducted; and similarly section 20 (see paragraph 63) requires the principal officer of a company distributing dividends to issue to shareholders a certificate stating that the company has paid or will pay income-tax on the profits that are being distributed. These certificates (or in the case mentioned in paragraph 62, a certificate by a bank) must ordinarily be accepted by Income-tax Officers as conclusive proof that tax has been paid.

The powers of an Income-tax Officer in respect of refunds can be exercised by any other authority appointed by the Governor General in Council in this behalf under section 48.

For the reasons given in paragraph 63 the Income-tax Officer, for purposes of refund in the case of dividends, has to assume that the dividends mentioned in the certificate were taxed at the maximum rate current on the date when the dividends were *declared*. In the case both of dividends and of interest on securities, the tax deducted has to be added to the “ net ” dividend or interest paid for the purpose of calculating both the “ total income ” of the applicant and the amount of refund due [see paragraph 57, and section 48 (1)].

A company, a substantial portion of whose income is *known* to be derived from tax-free securities, should be required to certify, as the statutory form prescribed in Rule 14 provides, what percentage of its income in a given year has actually paid tax or is liable to pay tax; and if a shareholder receives a dividend from a company that derives a substantial portion of its income from tax-free securities, the shareholder should only be allowed a refund under section 48 in respect of a proportion of his dividend corresponding to the proportion of the company's income that is subject to tax.

When the amount distributed by a Company as dividends exceeds the total income, profits or gains as calculated for income-tax purposes of the Company in the year in question, taxed and untaxed, which includes cases where there is no income, profits or gains, or a loss (for example where net receipts from non-tax-free sources are wiped out or exceeded by the depreciation allow-

ance) the refunds to shareholders should be calculated with reference to the proportion borne by the tax-free income to the total amount distributed less the tax-free income.

Application for refund under the provisions of rule 39 should in cases where the applicant is resident in British India, be made to the Income-tax Officer of the district in which the applicant is chargeable directly to income-tax or, where he is not chargeable directly to income-tax, to the Income-tax Officer of the district in which he ordinarily resides and such Income-tax Officers are required to give the refunds. In cases where the applicant is resident outside British India, the application should be made to the Income-tax Officer, Non-Residents Refund Circle, Bombay. The Income-tax Officer will, however, allow a claimant who resides in an Indian State, the option of receiving payment of the refund through the Political Officer in that State, that is to say, the refund voucher that will be issued by the Income-tax Officer will be made payable, if the person applying for the refund so desire, at the Political Treasury of the Government of India in the particular Indian State, or if there is no treasury under the control of the Political Officer, at the prescribed British Indian Treasury.

The necessity for refunds of tax on Government securities can be avoided, by the procedure laid down in paragraph 61, in the case of persons who are either not liable to the tax or who have a taxable income which is sufficiently stable to justify the Income-tax Officer in assuming that the rate applicable to the total income is not likely to move from one grade to another. Again, as has been pointed out in preceding paragraphs, the necessity for a refund can also be avoided in the case of persons who have income which has not been taxed, or from which income-tax has not been deducted, at the source, since such persons can claim a set-off against the tax due on that other income.

In cases where a cash refund is necessary, the procedure laid down in rules 36 to 39 should facilitate the granting of refunds. The application must be made in the form prescribed in rule 36 by persons resident in British India and in that prescribed in rule 36-A by persons not resident in British India and verified in the manner laid down in those rules and must, under rule 37 or 37-A, be accompanied by a return of the "total income" in the form prescribed in rule 19 unless such a return has previously been made or that prescribed in rule 37-A as the case may be. A false statement in such a return or in such a verification is punishable under the provisions of section 182 of the Indian Penal Code, which are set out in paragraph 68 above. The application must also, where necessary, be accompanied by the certificates mentioned in section 18 (9) or section 20. The applications, under rule 40, need not be presented in person, but may be sent by post or by an authorised agent. In cases where the applicants residing in India do not present themselves, the amount of any refund due should be remitted by money order, in which event the cost of the money order is borne by the Government and is not to

be deducted from the amount to be refunded. If the applicants reside out of India, the amount of refund under section 48 or 49 of the Act will be remitted to them by bank draft or money order at their cost unless they appoint agents to receive payment in India.

It should be particularly noted that section 48 does not apply to super-tax (see section 58) since super-tax is not deducted at the source or taxed at the source with the solitary exception of the case referred to in section 57, in which case no claim for any refund can arise.

Under sub-sections (4) and (5) of this section refunds to non-residents, who are neither British subjects nor subjects of Indian States, are not admissible. Refunds to non-residents, who are British subjects or subjects of Indian States, are to be made with reference to their entire income both in and outside British India, which would be liable to Indian income-tax if it accrued or arose or was received in British India. The total income thus computed will, of course, include income from agriculture conducted outside British India.

The onus of proving the claim to refund (and therefore of adducing satisfactory evidence of his total income) of course lies on the claimant, and if he fails to discharge it his claim should be rejected. It is not necessary, however, for the purpose of such claims to do more than ascertain the grade of tax applicable, or to compute the total income exactly. Certificates by Income-tax authorities in the United Kingdom or a Dominion should be accepted as proof of the amount of the total income. Certificates of responsible officials in Indian States should also be accepted in support of claims presented by subjects of Indian States.

Sub-sections (4) and (5) of this section should be applied, irrespective of when the income in respect of which a refund is claimed accrued, arose or was received, to all claims under this section presented on or after April 1st, 1928. They should not be applied to claims presented but not disposed of before 1st April 1928.

93. Relief from double income-tax of incomes taxed in British India and the United Kingdom. (Section 49.)—At a conference between the representatives of the Home Government and of the Dominions and of India an agreement was arrived at to the following effect: That in respect of income taxed both in the United Kingdom and in India there should be deducted from the appropriate rate of the United Kingdom income-tax (including super-tax), the whole of the rate of the Indian income-tax (including super-tax), charged in respect of the same income, subject to the limitation that in no case should the maximum rate of relief given by the United Kingdom exceed one-half of the rate of the United Kingdom income-tax (including super-tax) to which the individual tax-payer might, be liable and that any further relief necessary in order to confer on the tax-payer relief amounting to the lower of the two taxes (United Kingdom and Indian) should be

given by India. That is to say, the arrangement is that where income is liable to taxation both in the United Kingdom and in India, it should pay only at the highest rate leviable in either country. These proposals have been accepted by the Government of the United Kingdom and are embodied in section 27 of the Finance Act of 1920. A copy of that section is given below:

* * * * *

27. (1) If any person who has paid, by deduction or otherwise, or is liable to pay, United Kingdom income-tax for any year of assessment on any part of his income proves to the satisfaction of the Special Commissioners that he has paid Dominion income-tax for that year in respect of the same part of his income, he shall be entitled to relief from United Kingdom income-tax paid or payable by him on that part of his income at a rate thereon to be determined as follows:—

(a) if the Dominion rate of tax does not exceed one-half of the appropriate rate of United Kingdom tax, the rate at which relief is to be given shall be Dominion rate of tax;

(b) in any other case the rate at which relief is to be given shall be one-half of the appropriate rate of the United Kingdom tax.

For the purpose of this section, the expression "the appropriate rate of United Kingdom tax" means the rate at which the claimant for the year to which the claim relates has borne or is liable to bear United Kingdom income-tax and where the claimant is liable to United Kingdom super-tax the expression "the appropriate rate of United Kingdom tax" means a rate equal to the sum of the rates at which he has borne or is liable to bear United Kingdom income-tax and super-tax, respectively, for that year.

(2) Where a person has not established his claim to relief under this section for any year of assessment before the first day of January in that year, the relief shall be granted by way of repayment of tax.

(3) Where by reason of the allowance of relief under this section the rate of United Kingdom income-tax deducted from or paid in respect of any part of the income of any individual is less than the standard rate, and the rate of the relief so allowed is greater than the rate appropriate to the case of that individual, such an adjustment shall be made in allowing to that individual any relief to which he may be entitled under the provisions of this part of this Act relating to the rate of tax on the first two hundred and twenty-five pounds of taxable income as may be necessary to secure that the amount of United Kingdom income-tax finally paid or borne by him shall be equal to the amount which would have been paid or borne if the relief under this section had in the first instance been given at the rate appropriate to his case.

(4) Notwithstanding anything in the Rules applicable to Case IV or Case V of Schedule D or in any other provision of the Income-tax Acts, no deduction shall be made on account of the payment of Dominion income-tax in estimating income for the purposes of United Kingdom income-tax, and where income-tax has been paid or is payable in any Dominion either on the income out of which income subject to United Kingdom income-tax arises or is received, or as a direct charge in respect of that income, the income so subject to United Kingdom income-tax shall be deemed to be income arising or received after deduction of Dominion income-tax and an addition shall, in estimating income for the purposes of the United Kingdom income-tax, be made to that income of the proportionate part of the income-tax paid or payable in the Dominion in respect of the income out of which that income

arises or is received together with the full amount of any Dominion income-tax directly charged or chargeable in the Dominion in respect of that income:

Provided that—

- (a) where any income arising or received as aforesaid consists of dividends which are entrusted to any person in the United Kingdom for payment and the Special Commissioners are satisfied that the person so entrusted is not in a position to ascertain the amount of the addition to be made under this sub-section, the assessment and charge may be made on the amount of the dividends as received by the person so entrusted, but in any such case the amount of the addition shall be chargeable on the recipient of the dividends under Case VI of Schedule D; and
- (b) where under the laws in force in any Dominion no provision is made for the allowance of relief from Dominion income-tax in respect of the payment of United Kingdom income-tax, then in assessing or charging income-tax in the United Kingdom in respect of income assessed or charged to income-tax in that Dominion deduction shall be allowed in estimating income for the purpose of United Kingdom income-tax of an amount equal to the difference between the amount of the Dominion income-tax paid or payable in respect of the income and the total amount of the relief granted from the United Kingdom income-tax in respect of the Dominion income-tax for the period on the income of which the assessment or charge to United Kingdom income-tax is computed.

In this sub-section the expression dividends includes any interest, annuities, dividends, shares of annuities, pensions, or other annual payments or sums in respect of which tax is charged under the Rules applicable to Schedule C or under Rule VII of the Miscellaneous Rules applicable to Schedule D.

(5) Where under Rule 20 of the General Rules applicable to Schedules A, B, C, D, and E, a body of persons is entitled to deduct income-tax from any dividends, tax shall not in any case be deducted at a rate exceeding the rate of the United Kingdom income-tax as reduced by any relief from that tax given under this section in respect of any payment of Dominion income-tax.

(6) Where under the law in force in any Dominion provision is made for the allowance of relief from Dominion income-tax in respect of the payment of United Kingdom income-tax the obligation as to secrecy imposed by the Income-tax Acts upon persons employed in relation to Inland Revenue shall not prevent the disclosure to the authorised officer of the Government of the Dominion of such facts as may be necessary to enable the proper relief to be given in cases when relief is claimed both from United Kingdom income-tax and from Dominion income-tax.

(7) The Commissioners of Inland Revenue may from time to time make regulations generally for carrying out the provisions of this section, and may, in particular, by those regulations provide—

- (a) for making such arrangements with the Government of any Dominion to which the last preceding sub-section applies as may be necessary to enable the appropriate relief to be granted;
- (b) for prescribing the year which in relation to any Dominion income-tax is, for the purposes of relief under this section, to be taken as corresponding to the year of assessment for the purposes of United Kingdom income-tax.

(8) In this section—

- (a) The expression " Dominion " means any British possession, or any territory which is under His Majesty's protection or in respect of which a mandate is being exercised by the Government of any part of His Majesty's dominions :
- (b) The expressions " United Kingdom income-tax " and " United Kingdom super-tax " mean respectively income-tax and super-tax chargeable in accordance with the provisions of the Income-tax Acts :
- (c) The expression " Dominion income-tax " means any income-tax or super-tax charged under any law in force in any Dominion, if that tax appears to the Special Commissioners to correspond with United Kingdom income-tax or super-tax :
- (d) The expression " Dominion rate of tax " means the rate determined by dividing the amount of the Dominion income-tax paid for the year by the amount of the income in respect of which the Dominion income-tax is charged for that year, except that where the Dominion income-tax is charged on an amount other than the ascertained amount of the actual profits the Dominion rate of tax for the purposes of this section shall be determined by the Special Commissioners.

For the purposes of this section, the rate of United Kingdom income-tax shall be ascertained by dividing by the amount of the taxable income of the person concerned the amount of tax payable by that person on that income before deduction of any relief granted in respect of life assurance premiums or any relief granted under the provisions of this section, and the rate of United Kingdom super-tax shall be ascertained by dividing the amount of the super-tax payable by any person by the amount of that person's total income from all sources as estimated for super-tax purposes.

* * * * *

Under that section a person whose income is assessed both in the United Kingdom and in India is entitled to claim from the authorities of the United Kingdom a refund or rebate of the rate levied in India up to one-half of the English rate.

Section 49 of the Indian Income-tax Act, therefore, provides that where any further relief is to be given in order to secure that such a person shall not pay a higher rate than the highest rate in either country, such relief will be given by India, subject to the limitation that the relief given in India shall not exceed half of the rate of income-tax and super-tax combined. Up to the year 1921-22 the Indian rates of income-tax and super-tax combined were less than half the rates in the United Kingdom, and, therefore, no claim can be made under this section in respect of tax levied up to that year. Relief can only be claimed in India, when, owing to any alteration in the rates, the Indian rate is more than half the English rate, and the amount of relief would merely be the amount by which the Indian rate exceeds half the English rate. The rates prescribed in India in some cases now amount to more than half the English rates as fixed for the year 1930-31. The table below shows the amount of English income-tax and

super-tax and the effective rate per rupee contrasted with similar figures for the Indian rates.

English.				Indian.			
Income.	Income-tax.	Super-tax.	Effective rate per rupee.	Income-tax.	Super-tax.	Effective rate per rupee.	
Rs.	Rs.	Rs. A. P.	Rs. A. P.	Rs. A.	Rs.	Rs. A. P.	
30,000	6,750	...	0 3 7 $\frac{1}{2}$	2,500	0	...	0 1 4
45,000	10,125	843 12 0	0 3 10 $\frac{1}{2}$	4,453	2	...	0 1 7
60,000	13,500	2,343 12 0	0 4 2 $\frac{1}{2}$	5,937	8	677 1	0 1 9 $\frac{1}{2}$
75,000	16,875	4,583 12 0	0 4 6 $\frac{1}{2}$	7,421	14	1,692 11	0 1 11 $\frac{1}{2}$
90,000	20,250	7,218 12 0	0 4 10 $\frac{1}{2}$	18,906	14	2,708 5	0 2 0 $\frac{1}{2}$
1,05,000	23,625	10,218 12 0	0 5 1 $\frac{1}{2}$	10,390	10	3,880 4	0 2 2 $\frac{1}{2}$
1,20,000	27,000	13,218 12 0	0 5 4 $\frac{1}{2}$	11,875	0	5,364 10	0 2 3 $\frac{1}{2}$
1,35,000	30,375	16,968 12 0	0 5 7 $\frac{1}{2}$	13,359	6	6,849 0	0 2 4 $\frac{1}{2}$
1,50,000	33,750	20,718 12 0	0 5 9 $\frac{1}{2}$	14,843	12	8,333 6	0 2 5 $\frac{1}{2}$
2,25,000	50,625	41,343 12 0	0 6 6 $\frac{1}{2}$	22,265	10	18,880 4	0 2 11 $\frac{1}{2}$
3,00,000	67,500	63,843 12 0	0 7 0 $\frac{1}{2}$	29,687	8	32,552 3	0 3 3 $\frac{1}{2}$
4,50,000	1,01,250	1,12,593 12 0	0 7 7 $\frac{1}{2}$	44,531	4	70,833 7	0 4 1 $\frac{1}{2}$
6,00,000	1,35,000	1,65,093 12 0	0 8 0 $\frac{1}{2}$	59,375	0	1,23,177 1	0 4 10 $\frac{1}{2}$
Companies	0 3 7 $\frac{1}{2}$	0 2 7

NOTE.—The allowances and abatements allowed by the United Kingdom Income-tax Act have not been taken into account in working out the figures of United Kingdom income-tax in the table. The income-tax and surtax have also been assumed to be charged on the same income. The figures are therefore only useful as generally indicating the relative rates of taxation in the two countries.

It will be observed that the Indian rate for individuals and firms is *less* than half the English rate up to an income of about 3 $\frac{1}{2}$ lakhs. Persons with such incomes which are wholly taxed both in the United Kingdom and in India can, therefore, claim a refund or rebate of the whole of the Indian rate to be set against the English rate from the authorities in England and there will be no claim to relief in India. The Indian rate for an income of 4 $\frac{1}{2}$ lakhs is *more* than half the English rate and a person who has paid income-tax both in the United Kingdom and in India on this income, could claim a refund from the English authorities of a sum equivalent to 3 annas 9 $\frac{3}{4}$ pies per rupee on his assessed income and thereafter could claim from the Indian Income-tax authorities a refund of 3 $\frac{63}{100}$ pies per rupee of his assessed income. An assessee must have obtained relief from the authorities in the United Kingdom and must prove that he has done so and at what rate the relief was granted before any relief can be given to him in India. For limitation of the claims for refund see paragraph 95-A.

It is necessary to emphasize the fact that the relief under this section proceeds and is based upon a comparison of the *rate* of tax

in India with the *rate* of tax in the United Kingdom and not of the comparative *amounts* of tax paid in either country. That is to say, what is compared is the rate of the Indian tax paid by the claimant for the Indian year of assessment corresponding to the United Kingdom year of assessment in respect of the part of the claimant's income liable to United Kingdom tax and not the particular amount of such part of his income liable to United Kingdom income-tax as is charged to Indian income-tax. The rate of Indian income-tax paid in respect of the part of the income in question having been ascertained, the relief from United Kingdom income-tax is granted on that part of the income as charged to United Kingdom income-tax for that year of assessment, irrespective of the fact that the amount of the United Kingdom assessment may be greater or less than the amount of the Indian assessment for the corresponding Indian year of assessment or that the amount of relief may fall short of or exceed the amount of Indian tax actually paid. In other words, under this system of relief no enquiry is made in the United Kingdom into any differences of basis of computation under the Indian and United Kingdom rules of assessment, provided that it is clear that from whatever source he derives the income on which he claims relief, the claimant has paid (for the Indian year of assessment corresponding to the United Kingdom year of assessment for which relief is claimed) Indian tax in respect of his income from that source, however that income may have been computed for the purposes of assessment to the Indian tax; and the procedure in India in determining the balance of relief to be given in this country proceeds in exactly the same way. For example, suppose a man resident in the United Kingdom trades in India and is liable to United Kingdom income-tax in respect of the profits on a three years' average and to Indian income-tax on a preceding year's basis; suppose also (ignoring other expenses) that the Indian Act allows as a deduction the payment of annual interest on money borrowed which is not allowed in the United Kingdom, and that his profits for the years 1 to 4 are as follows:—

Number.	Profits before deduction of annual interest.	Annual interest.
	Rs.	Rs.
1	1,00,000	3,000
2	50,000	6,000
3	30,000	2,400
4	70,000	5,000

The United Kingdom and Indian assessments for the years 4 and 5 are as follows:—

Figures.	United Kingdom assessment.	United Kingdom rate (say).	Indian assessment.	Indian rate (say).
	Rs.		Rs.	
4	60,000	As. 4	27,600	A. 1
5	50,000	5s. 4½d.	65,000	A. 1½ ⁹ / ₁₆

Then relief from United Kingdom income-tax will be allowed at 1 anna on Rs. 60,000 for the year 4 and 1½ annas on Rs. 50,000 for the year 5. There will be no claim to any relief in India.

This system of relief is one that was deliberately adopted at the conference, the principle followed being summarised as follows in the report of the United Kingdom Royal Commission, *viz.*:—

"That there will be no interference either by the United Kingdom or by a Dominion with the basis of assessment adopted by any other part of the Empire, and further that the settlement should be independent of increases and decreases in rate of tax and alteration in the basis of assessment whether in the United Kingdom or in the Dominions. This intention is clearly illustrated by the following examples which are given in the report.

Example 1.—A, a British resident, derives a fluctuating unearned income directly from a Dominion whose rate of tax applied to that income is 1s. 6d. in the £. A has no other income, and his rate of tax in the United Kingdom varies according to the amount of his income. The following figures illustrate the position:—

—	United Kingdom.	Dominion.
1st year.		
Tax before relief	£1,000 at 3s. 9d.	£600 at 1s. 6d.
Relief	£1,000 at 1s. 6d.	<i>Nil.</i>
Tax after relief	£1,000 at 2s. 3d.	£600 at 1s. 6d.
2nd year.		
Tax before relief	£300 at 3s. 6d.	£900 at 1s. 6d.
Relief	£300 at 1s. 0d.	<i>Nil.</i>
Tax after relief	£300 at 1s. 6d.	£900 at 1s. 6d.

In this example, although it was the same description of income assessed each year, there were wide variations in the amounts assessed in the United Kingdom and in the Dominion. This might happen owing to different methods of computing taxable profit, and the differences are intentionally exaggerated to illustrate the principles to be followed.

Example 2.—B is a British resident receiving as shareholder an income of £900 from a British Company C which derives the whole of its income from a Dominion. In the first place relief will be given to the Company C, and in order to illustrate how this is done, let it be assumed that the Company's profits as calculated for the United Kingdom tax are £60,000, and as calculated for Dominion tax £50,000. Adjustment will be made to the Company as follows:—

	United Kingdom.	Dominion.
Tax before relief	£60,000 at 6s. 0d.	£50,000 at 1s. 6d.
Relief	£60,000 at 1s. 6d.	<i>Nil.</i>
Tax after relief	£60,000 at 4s. 6d.	£50,000 at 1s. 6d.

The Company when paying the dividend to B would deduct 4s. 6d. in the £ United Kingdom tax, and intimate on the dividend warrant that the relief in respect of double income-tax was 1s. 6s. in the £.

Let it be assumed that B's dividend of £900 is his total income, so that his proper rate of charge to United Kingdom income-tax is 3s. 9d. He has suffered Dominion tax to the extent of 1s. 6d. in the £, and his ultimate rate of United Kingdom income-tax is 2s. 3d. in the £ (3s. 9d. less 1s. 6d.), but he has suffered by deduction 4s. 6d. in the £ and he will accordingly be repaid 4s. 6d. minus 2s. 3d.=2s. 3d. in the £ on £900.

Example 3.—D is a British resident receiving £900 from Company C, but he has other income arising in the United Kingdom, and his combined rate of income-tax and super-tax is 7s. 6d. in the £. He is entitled, therefore, to double income-tax relief up to a maximum of 3s. 9d. but the whole of the Dominion tax (1s. 6d. in the £) has already been allowed to the Company C, who deduct 4s. 6d. United Kingdom tax on payment of the dividends, and no further relief is due. D will, therefore, be assessable in respect of the £900 at 1s. 6d. in the £, viz., 7s. 6d. less 4s. 6d. United Kingdom tax deducted, and 1s. 6d. Dominion tax."

It will be noted that in the table at page 229 the amount of relief which a company can get under the English Act is at the rate of 1 anna and 9'6 pies in the rupee and that the amount which they can claim from the Indian authorities will be at a rate of 9'4 pies in the rupee. The reason for the comparative high rates in India as compared with the United Kingdom of the tax on companies is that the Indian rate includes the super-tax on companies while the English rate does not include the United Kingdom Corporation tax. At the same time it must be noted that the Indian rate of 2 annas and 7 pies given in the table for companies is a rate which in actual practice will never be reached. It includes the 1 anna and 7 pies income-tax rate and the flat rate of 1 anna for super-tax; but the flat rate of 1 anna is never charged on the whole of the assessable income but only on the portion of the income in excess of Rs. 50,000. The rate for the portion of the income below Rs. 50,000 is *nil*. In order to get at the comparative rate, the tax paid by the company has to be divided by its total income. Thus in the case of a company with a profit of 1 lakh the comparative rate would merely be 2 annas and 1 pie while the rate in the case

of a company with a profit of 2 lakhs, it would merely be 2 annas and 4 pies. In both cases a relief of 1 anna 9'6 pies in the rupee would be obtained in the United Kingdom and the balance in India.

In order to obtain relief in India a claimant is required to supply the official receipt for the United Kingdom income-tax paid, the notice of assessment in particular showing the basis on which the liability has been computed and a certificate of the Income-tax authorities showing what relief has actually been granted to him in the United Kingdom.

The following are further examples illustrating the method to be adopted in calculating relief due under section 49 of the Act:—

Example 1.—A, a married man with one child, is resident in the United Kingdom; he has a fixed income of Rs. 10,500 from property in India and has no other income; his liability to tax is:—

In the United Kingdom.					In India.		
				Rs.	A.	P.	
Assessable income	.	.	.	10,500	0	0	Income-tax on Rs. 10,500 at 9 pies in the rupee, Rs. 492-3-0.
Less Personal allowance	.	.	Rs. 3,375				
Deduction for child	.	.	„ 900	4,275	0	0	
Taxable income	.	.	.	6,225	0	0	
Tax on the 1st Rs. 3,750 at As. 1½ in the rupee				375	0	0	
Tax on balance Rs. 2,475 at As. 3½ in the rupee				556	14	0	
*Total tax (before relief in respect of Indian income-tax)	.	.	.	931	14	0	

* For the purposes of calculating “the appropriate rate of United Kingdom tax” this amount is not to be reduced by any relief granted in respect of any life assurance premium.

The United Kingdom tax (Rs. 931-14-0), divided by the taxable income (Rs. 6,225) gives an “appropriate rate of United Kingdom tax” of approximately 2 annas 4'7 pies. A has paid Indian income-tax in respect of the same income at a rate of 9 pies in the rupee, that is, a rate which is less than half the United Kingdom rate and the relief from United Kingdom tax will, therefore, be a sum equal to the Indian rate on Rs. 6,585.

Example 2.—B is a bachelor resident in the United Kingdom with no dependents and has an earned income of £1,000 assessable to United King-

dom income-tax. He has no other income and pays income-tax in India in respect of the income in question. His liability to tax is as follows :—

	United Kingdom.
	£ s. d.
Total income	1,000 0 0
Less earned income allowance one-sixth of £1,000	166 13 4
Assessable income	833 6 8
Less Personal allowance	162 0 0
Taxable income	671 6 8
Tax on 1st £250 at 2s.	25 0 0
Tax on balance £421 at 4s. 6d.	94 14 6
*Total tax (before relief in respect of Indian income-tax)	119 14 6

* For the purposes of calculating "the appropriate rate of United Kingdom tax" this amount is not to be reduced by any relief granted in respect of life assurance premium.

The tax (£119-14-6) divided by the taxable income (£671) gives an "appropriate rate of the United Kingdom tax" of 3s. 6⁸d. or 2·85 annas in the rupee: Indian income-tax is payable on this income at a rate of 9 pies in the rupee, so that B is entitled to get relief from the United Kingdom at the rate of 9 pies in the rupee (that is, 11d. in the pound) on £671 and there is no balance of relief to be given in India.

Example 3.—C is a company the whole profits of which are taxed both in the United Kingdom and in India. The Indian rate of tax paid by the company is 2 annas and 7 pies in the rupee while the "appropriate rate of United Kingdom tax" for the company is 4s. 6d. in the pound. The company can get relief at the rate of 2/3 in the pound (or 1½ annas in the rupee) in the United Kingdom and on proof of payment of United Kingdom tax and of the grant of United Kingdom relief can claim from the Income-tax authorities in India the balance of relief, namely, 9½ pies in the rupee.

Corporation profits tax paid in the United Kingdom should not be deducted from the income taxed in India for the purpose of calculating the relief claimed under section 49.

In considering claims for relief under this section in the case of companies which are assessed separately in India but jointly in the United Kingdom, and one of which makes a loss and the other a profit, it is necessary to scrutinise the United Kingdom assessment to see how much of the income from each source has been taxed. Since one company has made a loss which has been allowed in the United Kingdom assessment, it is clear that only part of the Indian profits of the other company which has made profit has paid tax in the United Kingdom. It is only on this part that relief is allowable since that part only has suffered double taxation.

This section merely provides for relief from double tax where the same income is assessed to tax both in the United Kingdom and in India. It does not provide for relief in other cases.

93-A. Relief from double tax of incomes taxed in British India and in the United Kingdom—Method of calculating relief in India.—The following method should be followed in calculating the “Indian rate of tax”, as defined in section 49 (2) (b) of the Indian Income-tax Act:—

Indian super-tax is charged on the whole of the income, including the Rs. 50,000 that are free of super-tax, since under section 55 of the Indian Income-tax Act, it is said to be “charged” in respect of the “total income”. The result is that the first lakh of income is to be regarded as a single slab charged to super-tax at the effective rate of 6 pies in the rupee.

Thus, for the purpose of double income-tax relief, “doubly charged” income of any amount exceeding Rs. 50,000 can only consist of either—

- (1) income liable to super-tax alone, or
- (2) income liable to both income-tax and super-tax, or
- (3) (a) income liable to both income-tax and super-tax and
(b) income liable to super-tax alone,

i.e., there can at most be only two slabs. There can be no part liable to income-tax alone since no income is exempt from super-tax alone. The whole or a part of the income will, of course, be liable to super-tax alone if the whole or any part of the income is exempt from income-tax but not from super-tax. The relief should be calculated separately on each of the two slabs just mentioned.

This method is that followed by Somerset House.

94. Relief from double tax of incomes taxed in British India and in the United Kingdom—Procedure.—The following procedure should be followed for the grant of relief in respect of double taxation in India and in the United Kingdom:—

When during an assessment it is known that an assessee will be entitled to relief on account of double taxation on any part of his income, the amount of the relief may be calculated by the Income-tax Officer so far as is possible, and the assessee may be allowed to pay the demand in two instalments, the second of which will represent the amount of relief calculated to be due. The date of the first instalment will be that ordinarily fixed for the payment of a demand of income-tax, while the second will be payable two or, if possible, three or four months from the date of the notice of demand. If the assessee produces the necessary British certificates and establishes his claim to relief under section 49 of the Indian Income-tax Act, 1922, the demand for the second instalment should be modified by cancellation or reduction or, if the relief is greater

than the second instalment and the first instalment has been paid, a refund should be granted.

95. Relief from double tax of incomes taxed in British India and in Indian States.—Arrangements have also been made with several Indian States, which levy income-tax, for the grant of relief from the payment of double income-tax of incomes which are taxed both in any of these Indian States and in British India. Relief is granted in British India at a rate equal to half the Indian State rate subject to a maximum of half the British Indian rate. The State will grant relief at a rate equal to half its rate of tax. The following is a copy of the Notification prescribing the procedure to be followed by persons claiming relief from the payment of double income-tax:—

FINANCE DEPARTMENT (CENTRAL REVENUES).

Notification No. 25, dated the 1st July 1926 (as subsequently amended).

In exercise of the powers conferred by section 60 of the Indian Income-tax Act, 1922 (XI of 1922), the Governor General in Council is pleased to make the following modifications in respect of income-tax, in favour of income on which income-tax has been charged both in British India and in one of the Indian States referred to in the schedule to this notification (hereinafter called the said schedule), namely:—

1. In this notification—

- (a) the expression “ State income-tax ” means income-tax and super-tax charged in accordance with the provisions of the law relating to income-tax for the time being in force in the State concerned;
- (b) the expression “ State rate of tax ” means the amount of State income-tax divided by the amount of the larger of the two incomes on which income-tax and super-tax respectively have been charged by the State; and
- (c) the expressions “ Indian income-tax ” and “ Indian rate of tax ” have the same meanings as in clauses (a) and (b), respectively, of section 49 (2) of the Act.

2. If any person who has paid Indian income-tax for any year on any part of his income proves to the satisfaction of the Income-tax Officer that he has at any time paid State income-tax in respect of the same part of his income, he shall be entitled to the refund of a sum calculated on that part of his income at a rate equal to half the State rate of tax; provided that the rate at which the refund shall be given shall not exceed one-half of the Indian rate of tax.

3. Every application for refund of income-tax under this notification shall be made to the Income-tax Officer of the district in

which the applicant is chargeable directly to income-tax or if he is not chargeable directly to income-tax, to the Income-tax Officer for the district in which the applicant ordinarily resides, or if he is not resident in British India—

- (i) to the Income-tax Officer of the district or area in which he was last charged directly to income-tax when so resident, or
- (ii) if he has never been so resident, to the Income-tax Officer of the district or area where the income-tax for the refund of which application is made was deducted.

Such application may be presented by the applicant in person or by a duly authorised agent or may be sent by post, and shall be in the following form:—

Applications for relief from double income-tax under Notification No. 25, dated the 1st July 1926.

I, _____ of _____ do hereby state that I have paid (name of State) State $\frac{\text{income-tax}}{\text{income-tax and super-tax}}$ amounting to Rs. _____ for the year ending 19____ on an *income of Rs. _____ and that Indian $\frac{\text{income-tax}}{\text{income-tax and super-tax}}$ of Rs. _____ has also been paid on $\frac{\text{the same income}^*}{\text{part of the same income amounting to Rs. _____}}$. I now pray for relief at the rate of _____ amounting to Rs. _____ under Notification No. 25, dated the 1st July 1926, to which I am entitled. My income from all sources to which this Notification applies during the "previous year" ending on the 19____, amounted to Rs. _____ only—see Return of income $\frac{\text{attached}}{\text{already submitted}}$.

Signature

I hereby declare that what is stated herein is correct.

Signature

Dated

19 ____

4. No claim to any refund of Indian income-tax under this Notification shall be allowed unless it is made within one year from the last day of the year in which such tax or the State income-tax was recovered, whichever is later.

* Where the income on which income-tax has been charged differs from that on which super-tax has been charged both amounts must be specified.

SCHEDULE.

1. Baroda.	<i>Central Provinces.</i>
<i>Madras States Agency.</i>	13. Baster.
2. Travancore.	14. Kanker.
<i>Central India Agency.</i>	15. Raigarh.
3. Dhar.	16. Jashpur.
<i>Punjab States Agency.</i>	17. Sarangarh.
4. Patiala.	18. Makrai.
5. Bahawalpur.	19. Kawardha.
6. Jind.	20. Khairagarh.
7. Kapurthala.	21. Korea.
8. Loharu.	22. Nandgaon.
8-A. Maler Kotla.	23. Chhuikhadan.
8-B. Mandi.	<i>Bihar and Orissa.</i>
<i>Bombay.</i>	24. Mayurbhanj.
9. Sachin.	24A. Patna.
10. Akalkot.	24B. Sonpur.
11. Phaltan.	24C. Kalahandi.
11-A. Chhota Udepur.	24D. Rairakhol.
11-B. Ramdurg.	24E. Baudh.
<i>United Provinces.</i>	<i>Punjab.</i>
12. Benares.	25. Baghat.

95-A. Limitation of claims for refund. (Section 50.)—Claims for refund are admissible if made within 12 months from the last day of the year in which the tax was recovered or before the last day of the financial year commencing after the expiry of the “previous year” as defined in section 2 (ii) of the Act in which the income arose on which the tax was recovered, whichever period may expire later. This limitation applies also to refunds of double income-tax (section 49). The date of recovery in this case is, of course, the date of recovery of the tax in India. Since however there is often very great delay in settling assessments and claims to relief in the United Kingdom, provisional claims for double income-tax relief unsupported by proof that relief has actually been obtained in the United Kingdom may be accepted if presented within the limitation period if the assessee definitely undertakes to produce such proof *as soon as* relief in the United Kingdom has actually been obtained. When

this undertaking is punctually fulfilled the claim may be treated as one presented in due time. Claims to refund under section 49 may also be admitted after the expiry of the prescribed period, if the applicant satisfies the Commissioner, or an Assistant Commissioner specially empowered in this behalf, that he had sufficient cause for not making the claim within the period.

This section should be interpreted as illustrated below in dealing with claims for refund of tax on dividends. Taking the case of a shareholder in a company which declares a dividend in January 1929, if he is directly assessed and is a person who does not keep accounts, or whose "previous year" is the income-tax year, an adjustment can be made whenever he is assessed in the income-tax year April 1929 to March 1930, while an application for a refund can also be entertained at any time up to 31st ~~March 1931~~ March 1931. If he keeps accounts and his "previous year" runs, say, from October to September, an adjustment can be made in the course of assessment during the financial year 1930-31. An application for refund can also be entertained up to 31st March 1931. Where the shareholder keeps accounts on the cash basis, the relevant date is the date of receipt and not the date of declaration, and the foregoing instructions have to be read subject to this modification.

96. Prosecution for offences.—(See also paragraph 68.) Prosecution of assesseees for offences under sections 51 and 52 cannot be commenced except at the instance of an Assistant Commissioner and the Assistant Commissioner is, under section 53, empowered to stay any such proceedings or compound any such offence. The power of compounding an offence is one that can be exercised not only after proceedings have been commenced, but before proceedings are instituted at all.

97. Income-tax records to be kept confidential. (Section 54.) —While the Act of 1918 merely penalised the disclosure by a public servant of the particulars contained in any statement or return furnished under the Act, section 54 further penalises the disclosure of any particulars contained in any accounts or documents produced under the Act or in any evidence given or deposition made in the course of proceedings under the Act or in any record of an assessment proceeding or proceedings for recovery of a demand, and debars the Courts from requiring public servants to produce income-tax records or to give evidence respecting the same.

The provisos to sub-section (2) contain provisions stating in what particular cases information may be disclosed. The effect of the provisions is that information obtained in connection with the assessment of incomes and recovery of the tax may be disclosed by public servants to such persons only as act in the execution of the Act and where it may be necessary to disclose the same to them for the purposes of the Act, or in order to, or in the course of, a prosecution for perjury committed in connection with pro-

ceedings under the Act. The production before a Court of any document, declaration or affidavit filed, or the record of any statement or deposition made in a proceeding under section 26-A, or the giving of evidence by a public servant in respect thereof is also not prohibited. Proviso (c) was inserted mainly for the purpose of extending the protection to every action of a public servant in pursuance of the provisions of the Act or the rules such as the service of a notice by affixture. Apart from these particular cases it is essential that all records should be kept strictly confidential, and, in particular, the practice in certain provinces of furnishing information to local authorities, who impose a tax on "circumstances and property" or a local income-tax, of the details of assessment made by the income-tax authorities must cease. This prohibition applies equally to furnishing such information to other Government departments.

For the meaning of the phrase "public servant" see paragraph 9.

98. Super-tax.—The provisions of the Act regarding income-tax other than those specially excepted in section 58 apply also to super-tax which is merely, as stated in section 55, "an additional duty of income-tax". Super-tax is levied at the rates specified in the Finance Act (at the end of Part I of this Manual).

The super-tax on companies is levied at a flat rate on the whole of the profits of a company. This tax on companies, which takes the place of the tax formerly levied at a graded scale of rates on the "undistributed profits" of a company, is levied on the company as such on account of the special privileges which companies enjoy by statute in the shape of corporate finance and limited liability. No refund on account of super-tax on companies is, therefore, allowed to shareholders.

Apart from the tax on companies which stands in a class by itself, super-tax is levied on a scale of graduated rates. While in the case of income-tax the different rates are applied to the *whole* of an assessee's income, the different rates of super-tax are levied on successive "slices" of income, *i.e.*, on the portions of an assessee's income in excess of certain limits or the portions lying between certain limits.

Hindu undivided families are treated for purposes of super-tax, as for income-tax purposes, as separate assessees.

Unregistered firms are also treated as separate assessees. Where, however, an unregistered firm itself is not assessed to super-tax (*e.g.*, if its assessable profits are less than Rs. 50,000), in that case only is the income which any individual member of an unregistered firm receives from the firm included in his total income for super-tax.

Registered firms are not assessed to super-tax, but the shares of partners in registered firms are included in the total income of the individual partners on which super-tax is levied and similarly

the dividends of shareholders received from companies are included in the individual income of those shareholders.

The tax is levied on "total income" and "total income" in all cases means exactly the same thing as total income calculated for income-tax purposes with the solitary exception that where an unregistered firm is itself assessed to super-tax, the share of the profits of a member of the unregistered firm is excluded from his total income for super-tax purposes.

99. Deduction of super-tax at the source.—One of the exceptions to the general rule that super-tax is not deducted at the source is that provided for in section 57. That provision is rendered necessary owing to the difficulty of obtaining super-tax from non-residents. Section 57 (1) provides that in order to recover super-tax from the share of the profits of a partner in a registered firm, who is not resident in British India, the resident partners are themselves jointly and severally liable to pay the super-tax due from the non-resident in respect of this share. Sub-section (2) authorises an Income-tax Officer to require the principal officer of a company to deduct super-tax at the rate determined by him from the dividends payable to a non-resident shareholder whose total income is expected to exceed the minimum amount liable to super-tax even if the amount of the dividend or dividends payable with the income-tax thereon does not by itself exceed the minimum liable to super-tax. This rate must be the effective or average rate of super-tax; that is to say, first the total amount of super-tax due on the total income must be calculated. Then the rate is to be arrived at by dividing this total super-tax by the total income. That rate is to be notified to all persons paying dividends and they should be required to deduct super-tax at that rate from whatever dividends they pay. Sub-section (2) should not ordinarily be resorted to where the non-resident shareholder has a duly authorised agent in India *to whom his dividends are paid* and through whom he can be assessed to super-tax in the ordinary way under section 43 of the Act. But sub-section (2) should be employed where special circumstances render it necessary—for example where a non-resident has resorted to some device by which proceedings under section 43 have been rendered infructuous. Any such case should be reported by the Income-tax Officer concerned through the Assistant Commissioner to the Commissioner of Income-tax whose orders should be taken before proceeding under the new section 57 (2). Sub-section (3) makes the principal officer of a company liable to deduct any super-tax due on dividends payable to a shareholder whom he has no reason to believe to be resident in British India. The liability merely attaches where the amount of the profits or dividends payable to the non-resident partner or shareholder together with the amount of any income-tax payable by the company in respect thereof is, taken by itself, liable to super-tax on the assumption that it represents the whole income of the non-resident partner or shareholder. It should be observed that if for example dividends are paid half-

yearly and the combined amount of the two payments in any year and the income-tax thereon exceeds the minimum liable to super-tax though the first payment including the income-tax on it taken by itself does not exceed it, the principal officer is bound to deduct the super-tax on such excess from the second payment. The Act does not require the resident partner or the principal officer to obtain from the non-resident partner or shareholder a statement of any other income that may accrue to him in British India. Where there is reason to believe that there is such other income it will be necessary to rely on the provisions of sections 42 and 43 of the Act or sub-section (2) of section 57. In the case of companies the obligation to deduct applies only to dividends, and does not apply to other sums which a non-resident may receive from the company by way of the interest on debentures or remuneration such as director's fees. If the non-resident is himself assessed through an agent, sub-section (4) provides that the amount deducted at the source in this manner shall be taken into account in determining the amount payable by him in respect of any other income.

In the case of registered firms it should in most cases be possible to treat the person who registered the firm as the agent of the non-resident partner and to require him to disclose the whole income accruing in India to such non-resident.

Another exception to the general rule that super-tax is not deducted at source is provided in section 58-H in respect of an employee's total income as determined under section 58-J (3).

100. Super-tax—Deduction at source from dividends of non-resident shareholders. [Section 57 (3).] Sometimes large blocks of shares are registered in the names of banks, and held by them on behalf of the real owners for various reasons, though the banks have no proprietary or beneficial interest therein. The aggregate dividends on a block of shares in a single company thus held by a bank may exceed the maximum amount exempt from super-tax, though the dividends payable to some or all of the real owners individually may not exceed that amount. In such circumstances, super-tax should not be deducted at source from the dividends payable to the bank irrespective of the liability of the several real owners of the shares. If therefore, a bank in such circumstances furnishes the Income-tax Officer assessing the company from time to time with a list giving the names and addresses of the real owners of the shares and the number of shares held by each, the Income-tax Officer will inform the principal officer of the company, under sub-section (2) of section 57, of the rate of super-tax to be deducted in respect of the dividends payable to the bank, or that no super-tax is to be deducted therefrom, as the case may be, having regard to the liability of the individual shareholders.

101. Rules.—Rules made under section 59 of the Act by the Central Board of Revenue are contained in Part II of this Volume. With the exception of the rules first made under the Act, the power to make rules is, under section 59 (3), subject to the condi-

tion of "previous publication". The meaning of the phrase "subject to the condition of previous publication" is given in section 23 of the General Clauses Act (Act X of 1897), viz.:—

"Where, by any Act of the Governor-General in Council or Regulation, a power to make rules or bye-laws is expressed to be given subject to the condition of the rules or bye-laws being made after previous publication, then the following provisions shall apply namely:—

(1) the authority having power to make the rules or bye-laws shall before making them publish a draft of the proposed rules or bye-laws for the information of persons likely to be affected thereby;

(2) the publication shall be made in such manner as that authority deems to be sufficient;

(3) there shall be published with the draft a notice specifying a date on or after which the draft will be taken into consideration;

(4) the authority having power to make the rules or bye-laws, shall consider any objection or suggestion which may be received by the authority having power to make the rules or bye-laws from any person with respect to the draft before the date so specified;

(5) the publication in the Gazette of a rule or bye-law purporting to have been made in exercise of a power to make rules or bye-laws after previous publication shall be conclusive proof that the rule or bye-law has been duly made."

102. Composition not permissible.—The provision in previous Acts that allowed a system of composition of assessment and enabled the Income-tax Officer under specified conditions to enter into compositions with assesseees has been omitted from the present Act. No composition of assessment can, therefore, now be made although any composition entered into before the present Act came into force must be given effect to for the period for which the agreement was made.

103. Assessment of income-tax on married women.—Although there is no specific provision to this effect in the Act, a married woman is chargeable as if unmarried and has to be separately assessed in respect of her separate income.

Pensions received from funds such as the Indian Military Service Family Pension Fund by a widow on account of her children, and on account of herself are distinct and separate from one another. The pension of a minor orphan paid to his or her mother or a duly appointed or recognised guardian should not be included in the taxable income of the mother or guardian for the purposes of income-tax assessment.

104. Method of serving notices or requisitions.—Under section 63 of the Act a notice or requisition may be served either by post or in any manner provided for the service of summons under the Code of Civil Procedure. The words "by post" under section 27 of the General Clauses Act, X of 1897, mean "by registered post".

Section 63 (2) specially provides that in the case of firms or Hindu undivided families a notice or requisition may be addressed to any member of the firm or to the manager or any other male member of the family.

105. *The determination of the Income-tax Officer by whom an assessment is to be made.*—While for the reasons given in paragraph 24 every Income-tax Officer is, under section 64 (4), vested with all the powers conferred by or under the Act on an Income-tax Officer in respect of any income, profits or gains accruing or arising or received within the area for which he is appointed, the question of the Income-tax Officer by whom a particular assessee is to be assessed has to be determined in accordance with the provisions of sub-sections (1) to (3) of section 64. Under those provisions, if an assessee carries on business, he has to be assessed by the Income-tax Officer of the area in which his principal place of business is situate; in all other cases an assessee has to be assessed by the Income-tax Officer of the area in which he resides. Where there is any doubt or dispute on any such question, the question is to be finally determined by the Commissioner of the province in which the areas are situate. Where the areas are situate in more than one province, the question is to be determined by the Commissioners of the provinces concerned in consultation, and where two Commissioners are not in agreement, the question will be determined by the Central Board of Revenue. In all cases of dispute, however, before any such question is determined, the assessee must be given an opportunity of representing his views.

If an assessee whom an Income-tax Officer is seeking to assess challenges his jurisdiction on the ground that the assessee's principal place of business or residence is in a different income-tax circle, the Income-tax Officer should at once report the case to the Commissioner for orders. Even if the Income-tax Officers of the various circles concerned are in agreement as to the proper place of assessment, they are not competent to decide finally where the assessment should be made unless the assessee acquiesces in their decision. If he disputes it and the alternative places of assessment are all in the same Province, the Commissioner of Income-tax of that Province can finally determine the place of assessment. If alternative places of assessment are not situated in the same Province, it is not necessary for the Commissioners to refer the case to the Central Board of Revenue, unless they hold different views.

It is not necessary for an assessee who disputes the jurisdiction of the Income-tax Officer either to move the Commissioner himself or to ask the Income-tax Officer to do so. Whatever the assessee does or proposes to do, therefore, the Income-tax Officer should take the Commissioner's orders at once whenever his jurisdiction is challenged.

As the question of jurisdiction must be decided before any assessment can be made, the Income-tax Officers and Commissioners should deal with all questions arising under section 64 as expeditiously as possible.

106. *Reference to High Court. (Section 66.)*—Under the Act of 1918 a reference to the High Court on a question of law might

be made only if the head of the income-tax department in a province saw fit. He was not required to make any such reference on the application of an assessee if satisfied that the application was frivolous or that a reference was unnecessary. Under section 66 of the Act, the Commissioner of Income-tax has no longer power to withhold a reference on these grounds but is required to state a case to the High Court on the application of an assessee. In order to provide against frivolous or unnecessary applications, sub-section (2) requires that every such application shall be accompanied by a fee of Rs. 100 or such lesser sum as may be prescribed by rule made by the Central Board of Revenue (no lesser sum has yet been prescribed). In order to safeguard the revenue, sub-section (7) provides that the fact that a case has been stated to the High Court shall in no way stop the collection of the tax from the assessee.

An application for a reference to the High Court can only be made after an appeal to the Assistant Commissioner under section 31 or an appeal under section 32 to the Commissioner or a reference to a Board of Referees under section 33A has been disposed of. An assessee must therefore exhaust his remedies of appeal to the income-tax authorities before requiring a reference to the High Court. As it is desirable that questions of principle should, so far as possible, be settled by the revenue authorities, the proviso to sub-section (2) provides that if on receipt of such an application the Commissioner is himself prepared to give a ruling in favour of the assessee on the point of law raised, the applicant may withdraw his application for a reference to the High Court in which event the fee paid shall be refunded.

No refund should however be made in cases in which Commissioner refuses to state a case to the High Court as under the substantive part of section 66 (2) it is the making of an application for a reference to the High Court which involves the liability to pay the fee, and such liability therefore arises irrespectively of whether such reference is or is not made. The refund of fee, except in the circumstances specified in the proviso to section 66 (2), is therefore not warranted by the Act.

No reference may be made to the High Court on a question of fact. The Commissioner, under these provisions, may therefore, only withhold an application for a reference to the High Court if he considers that a point of law is not involved. If he does withhold it on that ground, the applicant under sub-section (3) may apply to the High Court, within six months from the date on which he is served with notice of the refusal to make a reference for a *mandamus* requiring the Commissioner to state a case, and if the High Court issues such a requisition, the Commissioner must state a case.

The Commissioner retains the power to state a case to the High Court on his own motion or on a reference from any income-tax authority subordinate to him. No authority other than the Commissioner is authorised to state a case for the High Court.

times claimed by insurance companies, the tax actually paid during a particular year of assessment. The reason for this is obvious. The method of assessment based on the previous valuation is itself a concession which, if the companies wish to enjoy, they must take as a whole. If there were to be a subsequent re-

— appeal lies to the Privy Council from judgment of the High Court delivered in a reference under section 66 if the High Court certifies that the case is a fit one for appeal.

106-A. Computation of periods of limitation. (Section 67-A).—In computing the period of limitation prescribed for an appeal under section 30 or 32 or for an application under section 66, the day on which the order complained of was made and the time requisite for obtaining a copy of such order shall be excluded. The application or appeal must however be filed not later than the last day of the period of 30 or 60 days, as the case may be, so computed.

Under section 21, the return must be filed on or before the 30th April. Under section 22 (2), if notice is received on May 1st, and the time specified in the notice is thirty days, the return must be made at least on May 31st. Cases under section 66 (3) are for the High Court to deal with.

107. Assessment of insurance companies.—Under section 59 (2) (v) special rules have been made prescribing the manner in which and the procedure by which, income, profits and gains shall be arrived at in the case of insurance companies. The rules so made are rules 25 to 32 while rule 35 deals with the particular case of non-resident companies.

Under these rules the income, profits and gains of life assurance companies incorporated in British India are determined by taking the annual average of the total profits disclosed by the last actuarial valuation adding thereto any deductions made from the gross income in arriving at the actuarial valuation which are not admissible under the Income-tax Act and adding also any Indian income-tax deducted from or paid on income derived from investments before such income is received. If the Indian income-tax deducted at the source from interest on investments exceeds the tax on profits thus calculated, a refund is permitted of the amount by which the deduction from interest on investments exceeds the tax payable on profits. The same provisions under rule 26 apply also to the determination of the income, profits and gains derived from the annuity and capital redemption business of life assurance companies, the profits of which can be ascertained from the results of an actuarial valuation.

For the purpose of refund in such cases it is the annual average of the tax deducted from the interest on the company's investments at the source that is to be taken and not, as has been some-

adjustment with reference to any of the transactions in the current actuarial period, this would have to be made after the period was closed with reference to the transactions of the company as a whole during that period, but this course would obviously not be suitable as it would mean very long deferred adjustments.

In *other classes* of insurance business (fire, marine, motor car, burglary, etc.), an annual calculation of profits is practicable, and rule 29 provides in the case of those particular businesses for the method of treating sums placed by companies carrying on some or all of these branches of insurance business to reserves for unexpired risks. The reasons underlying the concession granted in this rule should be carefully noted. The profits derived, for instance, by a Fire Insurance Company from the premia which it receives cannot be finally determined until the policies issued in return for the premia have expired and the risks to the company thereunder have terminated, and, as the periods during which the risks endure will not ordinarily coincide with the period on which the assessment to income-tax is based, it is necessary to frame some estimate of the expenditure which the company will be called upon to incur owing to the fact that the risks covered by its premium income in the year of assessment have not entirely ceased. With proper safeguards to prevent manipulation of the accounts, this estimate can equitably be made by treating sums placed by insurance companies carrying on these classes of business to their reserves for unexpired risks as expenditure incurred solely for the purpose of earning the profits of the business. And where, as not infrequently occurs, the reserve is divided into two parts of which the first is intended to cover normal unexpired risks and is generally reckoned at a fixed percentage of the premiums, and the second is intended to cover exceptional losses from widespread calamities, the rule allows this treatment to additions to both parts of the reserve. The safeguards against abuse which the rule imposes are as follows:—

- (1) All sums on account of unexpired risks, which a company wishes to have treated as expenditure for income-tax or super-tax purposes, must actually be credited to a Fund in the accounts of the company;
- (2) They must also be specifically appropriated to meet liabilities under existing contracts; and
- (3) The contracts must be with policy-holders.

The only other fund established by insurance companies for which special provision is made in the rules (Rule 30) is the Investment Reserve Fund. Amounts actually credited by an insurance company of any kind in the ordinary accounts of its business for the accounting period to its Investment Reserve Fund for the purpose of meeting depreciation in the value of its securities can be treated as expenditure incurred for the purpose of earning the profits of the business in determining the taxable income of the insurance company in that year. The reasons for

this departure from the general rule that reserves are not allowed as a business expense are as follows:—In the first place it may be noted that these adjustments are not optional the company is required to make them in order to ensure that its assets are not overstated in the valuation. The transfer of sums by a Life Assurance Company to Investment Reserve Fund differs, moreover, essentially from the placing of amounts to reserve by a bank or ordinary commercial company, either for the purpose of extending its business, or for the provision of additional working capital: the sums thus placed to reserve are practically speaking composed of undistributed profits. There is also a substantial difference between this transaction on the part of an insurance company, and that by which a bank writes off the depreciation of the securities which it holds. A bank meets depreciation by reducing its Reserve Fund: a Life Insurance Company meets it by reducing its Life Assurance Funds, and this reduction may be made either by writing down its assets or by leaving the assets unaltered, and setting up as a liability an Investment Reserve Fund equal to the depreciation. The latter course is usually adopted: but in both cases the depreciation is a loss, and to tax the amount of depreciation would lead to the anomalous result that the greater the loss to the company the greater would be the amount which it is required to place to its Investment Reserve Fund, and consequently the greater the tax it would have to pay.

On the other hand, should the accounts show a credit for "appreciation" of assets, rule 30 provides for such appreciation being taxed. The words "as has been otherwise taken into account" in the latter portion of rule 30 mean "having been carried to the Life Assurance Fund or otherwise taken into account".

The reason for the use of the word "may" instead of "shall" in rules 27, 29 and 30 is that while the concessions conferred by these rules should be granted as a general practice the income-tax authorities retain a discretion to refuse them where the concessions have been abused.

Companies carrying on *Dividing Society or Assessment* business are in a different position to the insurance companies proper in that they have not to build up funds similar to the Life Assurance Fund of ordinary Life Assurance business, and their profits are not ordinarily ascertainable by actuarial valuation. It is necessary, therefore, to fix some arbitrary method of determining the taxable income of companies transacting these kinds of business, and under rule 31 this is done by taking 15 per cent. of the premium income in the "previous year".

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